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BEFORE THE

DEPARTMENT OF TRANSPORTATION

WASHINGTON, D. C.

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Joint Application of AMERICAN AIRLINES, INC. and BRITISH AIRWAYS PLC under 49 USC 41308 and 41309 for approval of and antitrust immunity for agreement	:	OST-2001-10387

JOINT APPLICATION OF AMERICAN AIRLINES, INC.
AND BRITISH AIRWAYS PLC FOR ANTITRUST IMMUNITY

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JOINT APPLICATION OF AMERICAN AIRLINES, INC.
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American Airlines, Inc. (and its affiliates TWA Airlines LLC, American Eagle Airlines, Inc., and Executive Airlines, Inc. d/b/a American Eagle) and British Airways Plc (and its affiliates British Regional Airways Limited, Brymon Airways Limited, CityFlyer Express Limited, and Deutsche BA Luftfahrtgesellshaft GmbH) hereby jointly apply, under 49 USC 41308 and 41309, for approval of and antitrust immunity for their alliance agreement of August 3, 2001 (Exhibit JA-1).[1]

[1]The term "alliance agreement," as used herein, means (1) the joint applicants' agreement of August 3, 2001 (Exhibit JA-1), (2) any implementing or related agreements that the joint applicants conclude pursuant to the August 3, 2001 agreement to develop and carry out their alliance, and (3) any subsequent agreement(s) or transaction(s) by the joint applicants pursuant to the foregoing agreements. See Order 96-5-27, May 20, 1996 (United/Lufthansa), p. 1. n. 1.

We request that antitrust immunity become effective upon achievement of an open skies agreement between the United States and the United Kingdom, and remain effective for a period of at least five years, consistent with the Department's practice.

I. INTRODUCTION

This application is premised on the achievement of an open skies agreement between the United States and the United Kingdom. American and British Airways fully support the efforts of their Governments to reach such an agreement, and anticipate that these efforts will be successful. Approval of this application will bring substantial benefits to consumers and communities in both countries, and will enhance competition by enabling American and British Airways to compete more effectively with other immunized global alliances.

The United States has achieved open skies agreements with 53 nations throughout the world, including 18 in Europe. The Department has approved antitrust-immunized alliances involving the homeland carriers of 10 open-skies European countries, including the Netherlands, Germany, Sweden, Norway, Denmark, Switzerland, Belgium, Austria, Italy, and Iceland.[2]

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[2]See Order 93-1-11, January 11, 1993 (Northwest/KLM); Order 96-5-27, May 21, 1996 (United/Lufthansa) and Order 96-11-1, November 1, 1996 (United/Lufthansa/SAS); Order 96-6-33, June 14, 1996 (Delta/Swissair/Sabena/Austrian); Order 2000-5-13, May 11, 2000 (American/Swissair/Sabena); Order 99-12-5, December 3,

An open skies agreement with the United Kingdom, given its geographic location, market size, and volume of U.S. trade, will be one of the most important such agreements the United States has ever reached.

The alliance agreement between American and British Airways is pro-competitive and pro-consumer, as it promises substantial new online service benefits and efficiencies when the hub-and-spoke systems of the two carriers are combined to form a single, integrated network. American and British Airways will retain their independent corporate and national identities, but following grant of antitrust immunity will be positioned to operate as if they were a single entity.

American and British Airways consider their alliance to be of vital strategic importance as they strive to compete effectively with the other immunized transatlantic alliances. The proposed alliance will involve coordination in such areas as codesharing, frequent flyer programs, global route and schedule planning, sales, advertising and marketing, pricing and inventory management, product and service standards, inventory and procurement, revenue and cost allocation, ground handling, airport facilities and support services, cargo

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1999 (Northwest/KLM/Alitalia); Order 2000-10-13, October 13, 2000 (SAS/Icelandair); Order 2001-1-19, January 26, 2001 (United/Austrian/Lauda/Lufthansa/SAS).

services, ticketing, information technologies and distribution systems, and other core airline activities.

The American/British Airways alliance will significantly improve consumer convenience and choice, produce operating efficiencies that will create greater value for passengers and shippers, increase competition in thousands of city-pair markets, and generate economic benefits for communities across the worldwide networks of the two carriers. Improved air services will increase tourism and encourage local economic development, generating growth in employment and tax revenues. The alliance will also benefit the employees and shareholders of each company. American and British Airways employees will benefit from growth opportunities at each of the carriers, and shareholders will enjoy the benefits resulting from operating efficiencies and market growth.

Profound changes have occurred in international aviation competition since 1996, when American and British Airways first announced a proposed integrated transatlantic alliance.[3] Recognition of these changes is fundamental to a sound competitive assessment of the current American/British

[3]American and British Airways applied for antitrust immunity for that arrangement on January 11, 1997 in OST-97-2058. The application was dismissed without prejudice by Order 99-7-22, July 30, 1999, due to lack of productive negotiation of an open skies agreement between the U.S. and the U.K.

Airways alliance proposal. In reviewing this application, the Department should consider the following key factors:

- The growth of international aviation alliances

- The addition to the United/Lufthansa/SAS/Austrian Star Alliance of rival U.K. carrier bmi british midland ("BMI"), the integration by Star of its members' slot holdings to create a competing Heathrow hub, and the announcement by United and BMI that they will seek antitrust immunity, making Heathrow the only two-alliance hub airport in Europe

- The creation of the Delta/Air France/Alitalia/CSA SkyTeam alliance, and reports that France is seeking to accelerate open skies with the United States in order to support an early antitrust immunity application by Delta and Air France and their other partners

- The development elsewhere in Europe of competing global alliance hubs, in particular at Frankfurt, Amsterdam, and Paris

- Sustained growth of the U.S.-London market, including continuous entry and expansion of competitive service by both alliance and individual carriers to meet growing demand, confirming that new entry and expansion following open skies at Heathrow and other London airports is a certainty o The fact that open skies will remove longstanding regulatory barriers imposed by Bermuda 2, including limits on capacity, on the number of carriers serving Heathrow Airport, and on price leadership for published fares

o Increased recognition of the importance of one-stop competition as a competitive constraint on nonstop service

o Diminishing concern about the ability of alliances to impose non-competitive fares even on time-sensitive business travelers

Taken together, these changes have reduced the relative competitive significance both of London as a European hub, and of American and British Airways at Heathrow, and will preclude unwarranted fare increases or any other exercise of market power by the proposed alliance. Moreover, unlike other U.S.-Europe markets, the large number of passengers traveling between the U.S. and the U.K. ensures expanded service by airlines and alliances between the two countries following open skies, and a significant increase in the number of competitive alternatives available to travelers.

In sum, since 1996 there have been dramatic changes in international aviation and in the competitive dynamics of the transatlantic marketplace in which American and British Airways compete. In a world of international alliance competition and myriad service alternatives, the American/British

Airways alliance, and a U.S.-U.K. open skies agreement, will lead to more competition, with important and tangible benefits for the public.

II. GLOBAL ALLIANCES HAVE REDEFINED THE COMPETITIVE LANDSCAPE

Regulatory constraints and investment limitations continue to prevent airlines from building global networks on their own. Airlines strive to achieve network economies and benefits within these constraints by forming international alliances, which the Department has recognized as "the only practical way to provide improved, more competitive services." See International Aviation Developments, Global Deregulation Takes Off, December 1999 ("1999 DOT Report"), p. 5.

Alliances offer combined networks of seamless online services, allowing passengers to travel across the separate networks of alliance members as if they traveled on one airline, on average at considerably lower fares. As the Department has found, "alliance-based networks are the principal driving force behind transatlantic price reductions and traffic gains," and "we can expect greater consumer benefits as alliances continue to evolve and expand." See Transatlantic Deregulation, The Alliance Network Effect, October 2000 ("2000 DOT Report"), p. 6.

There are now four major global alliances -- Star, Wings, SkyTeam, and oneworld. Key U.S. and European partners in the Star and Wings alliances enjoy full U.S. antitrust immunity (and United is seeking immunity with BMI), which effectively allows them to harness integrated network efficiencies to the fullest extent through coordinated pricing and scheduling. See Order 2001-1-19, January 26, 2001 (United/Austrian/Lauda/Lufthansa/SAS); Order 93-1-11, January 11, 1993 (Northwest/KLM). Delta, Air France, Alitalia, and CSA, the key European members of SkyTeam, have announced that they will be seeking antitrust immunity at an early date.

Immunized alliances generate the most traffic gains, and are most attractive to passengers, because they enhance the ability of an airline alliance to provide meaningful schedule and fare benefits (1999 DOT Report, pp. 6, 8; 2000 DOT Report, pp. 1, 5). As long as their alliance remains non-immunized, American and British Airways are handicapped against other immunity-assisted alliances that are able to generate traffic gains through improved and fully coordinated services and lower fares. Exhibit JA-2 contains further detail on each of the major alliances, and discusses the impediments now faced by American and British Airways that hinder achievement of their full competitive potential.

In the context of the U.S.-London market, alliance competition has taken on even more significance with BMI's recent entry into the Star Alliance. Indeed, Star has announced that it will integrate BMI's Heathrow hub into the U.S. network of United and the networks of its other European partners Lufthansa, SAS, and Austrian Airlines, and will invest considerable additional resources at Heathrow. With 27% of all slot holdings at Heathrow and ample access to facilities, there is no doubt that the Star Alliance is now a major competitor at Heathrow, and is positioned to become even stronger.[4]

Transatlantic alliances were in their infancy five years ago, and assessments of likely impacts on competition were still based on predictions. Today, the proof is in -- alliances benefit both the public and participating carriers through better service at lower prices, including gateway-to-gateway routes linking the hubs of the respective alliance partners.

o U.S.-Europe alliance carrier passenger traffic grew by 134% compared to non-alliance carrier increase of 50% between 1992 and 1999 (2000 DOT Report, p. 4)

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[4]BMI has 13.62% of all slots at Heathrow; Lufthansa, 3.64%; SAS, 3.25%; United, 2.58%; Air Canada, 1.98%; Austrian Airlines, 0.54%; Singapore Airlines, 0.50%; ANA, 0.26%; Varig, 0.22%; Thai Airways, 0.22%; and Air New Zealand, 0.15%.

o Passenger traffic in the U.S.-Amsterdam market more than doubled between 1992 (the year before Northwest/KLM received antitrust immunity) and 1999, with equally impressive gains on routes between the U.S. and Frankfurt, Zurich, and Brussels after the United/Lufthansa and Delta/Swissair/Sabena alliances received immunity in 1996 (2000 DOT Report, p. 6, Chart 4)

o Alliance carriers expanded service on existing gateway-to-gateway routes (in part to accommodate the growth in flow traffic at one or both gateways), and created new gateway-to-gateway routes (2000 DOT Report, p. 2)

o In open skies markets where immunity for alliances is available under Department policy, average fares declined by 20.1% between 1996 and 1999, compared to a 10.3% decline for non-open skies markets (DOT 2000 Report, p. 3)

o Fares declined not only on behind and/or beyond gateway routes, but also on gateway-to-gateway routes, down by 17% in open skies markets, compared to a 5.1% reduction in non-open skies markets (2000 DOT Report, p. 3)

o Fares declined on gateway-to-gateway routes, even where nonstop competition between former competitors was lost following formation of the alliance, due to "more connection service (from other alliances), greater pricing flexibility, or the effects of added capacity in response to new traffic stimulated in connecting markets" (1999 DOT Report, p. 15)

In sum, close examination of the likely competitive impact of the proposed American/British Airways alliance, taking account of recent developments, shows that the alliance will enhance competition on U.S.-U.K. routes, and throughout the international air transportation system, to the significant benefit of the public.

III. OPEN SKIES WILL FURTHER ENHANCE COMPETITION IN THE U.S.-U.K. MARKET

The U.S.-U.K. market is one of the largest air travel markets in the world. However, current regulatory restrictions limit gateways and capacity and otherwise constrain the operation of a free market. In contrast to some other open skies markets, the density of U.S.-U.K. demand, coupled with the large number of existing competitors (including a second Heathrow hub carrier in Star), is certain to attract entry by new competitors and to cause expansion by existing ones. All of these carriers will compete with the American/British Airways alliance in a new market environment with increased freedom.

Bermuda 2, in force since 1978, contains limits on entry, capacity, and pricing, all of which will be removed by a U.S.-U.K. open skies agreement:

o Only two carriers per side may be nominated to operate from Heathrow to the U.S. (American and United, and British Airways and Virgin)

o Only a limited number of carriers may now serve each U.S. gateway, and although all designated U.S. gateways may be served from Gatwick, only 12 U.S. gateways may be served from Heathrow

o Proposed capacity increases from one season to the next equivalent season (e.g., Summer 2000 to Summer 2001) may now be implemented only under certain defined conditions

o Only carriers designated to serve a particular U.S.-U.K. route may now "price lead" on that route, while other carriers may only match the price established by the designated carriers

o The "sum of sectors" policy now stipulates that a through fare on a flight from or to a point behind or beyond a U.S. gateway or London must consist of the sum of the published transatlantic fare and the connecting domestic fare

Compared to other international markets that have transitioned to open skies, U.S.-U.K. routes are uniquely positioned to become even more competitive. Both United and Virgin have significantly increased their Heathrow frequencies in the recent past, and are expected to add further service following open skies. Delta has indicated plans to serve

Heathrow from its hub at Atlanta, and from JFK and Boston, while Continental has announced that it will supplement its existing U.S.-U.K. service by serving Heathrow from its hubs at Newark and Houston. US Airways has previously announced that it will add service from Boston, Charlotte, Philadelphia, and/or Pittsburgh. Northwest is also likely to add service.

Most significantly, in this age of alliance competition, the Star Alliance announced earlier this year that it sees Heathrow as "an important global hub," and that "our members are committed to ensuring that Star Alliance becomes the premier alliance offering from Heathrow." See Exhibit JA-3. In addition to reallocating the Heathrow slots held by its members, the Star Alliance is also investing heavily in new facilities that will permit expanded transatlantic services. Since the addition of BMI, the Star Alliance has announced plans to invest $72 million in upgrading its Heathrow operations "to support their attack on British Airways' oneworld alliance," using BMI "to spearhead the attack." See Exhibit JA-4. And United and BMI have announced plans to seek antitrust immunity under open skies. See Exhibit JA-5.

The backbone of the Star hub strategy is the existing bilateral alliance agreement between BMI and Lufthansa together with the bilateral alliance between United and BMI, and the recent announcement by United and BMI that they support U.S.-

U.K. open skies and will seek antitrust immunity. Star is well positioned to succeed with its proposed Heathrow hub strategy because of its extensive short-haul network from Heathrow to continental Europe as well as service to many important long-haul destinations.[5] BMI, which has announced plans to commence significant transatlantic service from Heathrow, is the second largest carrier at Heathrow, with about 14% of all slots. As noted above, the members of the Star Alliance, on a combined basis, now hold 27% of Heathrow slots.

Two other airlines certain to begin or expand U.S.-U.K. service after open skies -- Delta, a member of SkyTeam, and Northwest, a member of Wings -- have European alliance partners with substantial Heathrow slot holdings. Air France holds nearly 14,000 Heathrow slots per year, and KLM and Alitalia each hold nearly 10,000, representing a combined total of 44 daily slot pairs. Thus, the U.S. carrier members of these alliances will have substantial access to Heathrow slots, quite apart from those slots that may be available for new entrants.

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[5]As stated by the European Commission in approving the partnership between BMI, Lufthansa, and SAS, with improved access to Heathrow, "the Star alliance expects to compete more vigorously with the oneworld alliance of British Airways." EC Press Release, IP/01/831, Brussels, June 13, 2001.

Initiation and expansion of U.S.-U.K. service to and from other London airports, such as Gatwick and Stansted, by competing airlines and alliances can also be expected, further increasing the available capacity in the U.S.-London market.

IV. FOREIGN POLICY CONSIDERATIONS REQUIRE GRANT OF ANTITRUST IMMUNITY TO THE PROPOSED ALLIANCE

In the Northwest/KLM immunity proceeding in 1993, the Department concluded that "the public interest requires antitrust immunity for foreign policy reasons, particularly our bilateral relationship with the Netherlands." Order 93-1-11, January 11, 1993, p. 12. Even though the Department stated that "the [U.S.-Netherlands] Accord by its terms does not mandate a grant of antitrust immunity in this case," the Department found that "denial of antitrust immunity would contravene the spirit of the Accord and be counterproductive to the United States' relations with the Netherlands.... We believe that the Netherlands would consider a denial of immunity to be contrary to the Open Skies Initiative, unless we had a strong basis for a refusal to grant antitrust immunity." Id. Moreover, the Department found that:

> "[W]e would expect that our willingness to take such action [granting antitrust immunity] might well encourage other countries to seek liberal aviation arrangements with the United States...so that comparable opportunities may become available to other U.S. carriers" (Order 92-11-27, November 15, 1992 (show-cause), pp. 12, 14).

Given this precedent, as well as the more recent approvals of antitrust immunity for United/Lufthansa/SAS and others, the Government of the United Kingdom appears willing to negotiate a landmark open skies agreement with the United States. Disapproval of the American/British Airways alliance agreement, or the prevention of its consummation by withholding immunity, would jeopardize the successful conclusion of a U.S.-U.K. open skies agreement. Such action would be inconsistent with the U.S. Government's commitment to open skies and to free and fair international competition, as well as to the Department's promise of "comparable opportunities" in exchange for open skies.

V. ANTITRUST IMMUNITY FOR THE AMERICAN/BRITISH AIRWAYS ALLIANCE WILL RESULT IN SIGNIFICANT EFFICIENCIES AND CONSUMER BENEFITS

The proposed American/British Airways alliance is a pro-competitive arrangement that will create significant efficiencies and consumer benefits.

- Enhanced network competition, resulting in greater inter-alliance competition and the creation of more effective competition to other transatlantic alliances

- Improved service through schedule coordination, new online connections, integrated airport services, and lower prices

- Reciprocal access and enhanced value to consumers of the two carriers' frequent flyer programs
- Improved efficiency of operations and a consequent reduction in costs and fares
- Achievement of open skies between the United States and the United Kingdom, and the consequent removal of existing regulatory barriers imposed by Bermuda 2

Scheduled air transportation is a network business, and airlines are increasingly organizing themselves into alliances to achieve network economies and thereby offer superior service to passengers. Linking American and British Airways through an immunized alliance will create a network comparable in size to United/Lufthansa/SAS/Austrian/BMI.

The American/British Airways alliance will result in a network that will permit lower online and interline fares than either airline can offer alone. Consistent with the Department's findings on the overwhelmingly positive effect of alliances, other research indicates that alliance partners charge interline fares that are on average 25% lower than those charged by non-allied carriers. See Brueckner and Whalen, The Price Effects of International Airline Alliances, 43 Journal of Law and Economics 503 (2000). In addition, by combining complementary hub-and-spoke networks, the alliance will allow American and British Airways to achieve further economies, with more efficient aircraft operations and lower incremental costs. These and other anticipated cost reductions will place even further downward pressure on fares to consumers.

VI. THE AMERICAN/BRITISH AIRWAYS ALLIANCE AGREEMENT

The American/British Airways alliance agreement of August 3, 2001 (Exhibit JA-1) establishes the contractual framework for comprehensive collaboration and coordination between the two carriers in a global alliance. If the agreement is approved and antitrust immunity and other regulatory authorizations are granted, the applicants will then proceed with implementation of more detailed operating accords that will provide for specific coordination/integration undertakings with respect to scheduling, marketing, pricing, planning, joint services, benefit sharing on certain routes, and related matters. The following key areas are addressed by the alliance agreement:

1. Benefit sharing. To support their cooperative activities, American and British Airways have entered into a benefit sharing arrangement covering (i) American's nonstop services between London and Boston, Chicago, Dallas/Ft. Worth, Los Angeles, Miami, New York (including Newark), and Raleigh/ Durham, (ii) TWA's (and American's when subsequently transitioned) nonstop services between London and St. Louis, (iii) British Airways' nonstop services between London and Boston,

Chicago, Dallas/Ft. Worth, Los Angeles, Miami, and New York (including Newark), and (iv) British Airways' nonstop services between London and San Francisco. Together, these are referred to as the "joint services."

The benefit sharing agreement allows for the sharing of certain of the passenger revenue and operating expenses recorded by each carrier in operating the joint services. The agreement is structured to provide first for the recovery of a base amount of revenue by each carrier, and then for the apportionment of any incremental net revenue or losses in proportion to the capacity deployed by each carrier on the joint services.

The benefit sharing agreement does not contemplate the sharing of any revenue or expense on services operated by the carriers between the U.S. and U.K., other than the joint services routes, or points in Europe, or on any other routes, except for the normal settlement of revenue/expense on inter-line traffic.

2. Pricing. The parties will adopt joint pricing principles and coordinate pricing on "alliance services," defined as flights operated by the parties or their affiliates between the U.S. and the European region, and other routes within the proposed alliance's network. By adopting joint pricing principles, the parties intend to enable the proposed

alliance to provide customers with a broad range of competitively priced products and maintain the parties' competitiveness in the markets served. These joint pricing activities are further intended to enable American and British Airways to respond swiftly and efficiently to market demand, standardize the price distribution process, and maximize selling opportunities in competition with other airlines.

3. Revenue management. American and British Airways will jointly coordinate the development of revenue plans for alliance services. These revenue planning activities will include preparation of long-term revenue forecasts and performance plans, and the on-going monitoring of alliance results against forecasts.

The parties will further coordinate management of inventory on alliance services and, over time, will determine whether the proposed alliance could benefit by centralizing or co-locating the alliance inventory management function.

4. Schedules. The parties will coordinate schedules of alliance services and connections to minimize passenger waiting time and maximize passenger convenience. The parties will jointly plan schedules of alliance services, and develop joint network plans.

5. Codesharing. American and British Airways will engage in reciprocal codesharing services on their respective U.S.-U.K. nonstop routes and, to the fullest extent allowed by applicable bilateral agreements, on behind and beyond services. American and British Airways are separately seeking blanket statements of authorization and related exemptions under 14 CFR Part 212 to engage in worldwide codesharing operations.

6. Marketing and product. The parties will endeavor to provide the best value for customers by coordinating their product development, while maintaining their separate identities. The brands of both airlines will continue to be offered.

7. Frequent flyer programs. The parties will offer fully reciprocal, worldwide frequent flyer programs, which will allow members of one party's frequent flyer program to accrue and redeem awards on the services of the other party.

8. Sales. The parties have agreed to develop detailed procedures for selling alliance services and to develop longer-range plans and strategies for promoting such services.

9. Airports. The parties contemplate sharing and co-locating facilities at the airports they serve, so far as practicable, to enhance product seamlessness, while maintaining their separate identities.

10. Cargo. The parties will seek to identify opportunities for their mutual commercial and strategic benefit with respect to cargo services.

11. Non-exclusivity. The alliance agreement is non-exclusive, and does not preclude either party from entering into and maintaining marketing relationships, including codesharing, frequent flyer cooperation, and benefit sharing arrangements, with other airlines, provided that British Airways may not place its code on any other airline domiciled in the U.S., and American may not place its code on any other airline domiciled in the European Region. This proviso does not apply to existing arrangements or future renewals of existing arrangements.

12. Management of the alliance. The parties will form standing committees for each major functional area to oversee the day-to-day activities of the alliance. The joint management group ("JMG"), consisting of functional representatives for each of the key areas of alliance cooperation, will be chaired by the respective leaders of each airline's alliance department, and will periodically report to the senior officers and CEOs of the parties. The JMG will oversee the implementation of alliance strategies, monitor performance of the alliance, and facilitate resolution of issues referred to the JMG by the functional groups within each airline. The CEOs of each

party will have ultimate oversight and responsibility for all elements of the alliance.

VII. ANTITRUST IMMUNITY WILL ENABLE AMERICAN AND BRITISH AIRWAYS TO COORDINATE AND IMPROVE SERVICES TO THE BENEFIT OF THE PUBLIC

With antitrust immunity, the areas of coordination contemplated by the American/British Airways alliance agreement, outlined in the previous section, will allow the parties to generate substantial benefits and efficiencies. Such benefits and efficiencies cannot be achieved to the same, or to any significant, degree absent antitrust immunity.

A. Greater Choice And Ease Of Connections

By codesharing across each other's global networks, American and British Airways will offer the traveling public a far greater choice of online destinations. Passengers and cargo shippers from any of the 260 cities served by American and its affiliates will be able to reach with ease any of the 146 cities served by British Airways and its affiliates. See Exhibit JA-16.

American will place its code on British Airways' U.S.-U.K. services and flights beyond British Airways' U.K. gateways, and British Airways will place its code on American's U.S.-U.K. services and flights beyond American's U.S. gateways. The American/British Airways alliance network will potentially cover 24,890 city-pairs, making more of the world readily accessible to travelers than ever before. The alliance will add competitive service to many city-pairs previously served only by other alliances, thereby providing consumers with greater choice.

It is well-recognized that codesharing arrangements for beyond and behind points offer seamless service and provide greater convenience and other benefits to customers than standard interline agreements. See, e.g., Order 96-5-12, May 9, 1996 (show-cause), p. 24 (United/Lufthansa). Customers making a trip on both American and British Airways will benefit from one-stop shopping, a single ticket, enhanced through baggage and cargo handling, and having all required boarding passes at the outset of the journey.

In addition, American and British Airways intend to coordinate schedules and, where practicable, co-locate terminals, to maximize customer choice and service and improve connections. Similarly, arrival and departure gates will be moved closer together, and operations will be transferred from one terminal to another to minimize walking distances between connecting flights. The broader range of flight times and co-location of facilities is clearly in the consumer's interest, not only because this provides greater choice, but also because it reduces the inconvenience to the customer in the event of delay or other disruption resulting from weather conditions, mechanical problems, or other factors. In sum, American and British Airways will provide a seamless network of enhanced customer benefits.

B. Reciprocal Frequent Flyer Programs

Customers will also benefit from the world's best frequent flyer programs, which will offer a wide range of opportunities both for earning miles and redeeming miles for travel awards. The two airlines' frequent flyer programs will become fully reciprocal; mileage accrued on one airline can be used not just for awards on the other, but also to achieve a higher tier membership. In addition, members of the alliance partners' Admirals Club and Executive Club programs will have dozens of additional airport lounges available to them, and will receive priority bookings on flights across both airlines' networks.

C. Quality Of Service

Both American and British Airways have long had a commitment to innovative and excellent service. The alliance between the two carriers will facilitate achievement of the highest common level of customer service.

D. Availability Of Lower Fares

Coordination and consultation by American and British Airways in the inventory management process will result in tangible consumer benefits, chiefly the availability of lower fare seats. By coordinating inventory management and thereby obtaining an enhanced ability to predict customer preference, the alliance partners will no longer need to over-protect higher fare classes, making lower fare seats more readily available. In addition, the consultative inventory management process will facilitate more accurate overbooking practices, increasing the likelihood that passengers will consistently be able to travel on flights of their choice.

E. Cost Benefits And Efficiencies

The proposed alliance will produce a number of synergies and efficiencies that will result in more cost-effective operations, the benefits of which will ultimately reach customers with lower fares and improved services. Indeed, a GAO report to Congress has noted that "[i]n the long run, consumers could pay lower fares...as airlines in alliances integrate further and achieve cost efficiencies that could be passed on to the consumer." See GAO Report to Congressional Requesters, International Aviation, Airline Alliances Produce Benefits, April 1995, pp. 44-45. Moreover, Section 3.5 of the DOJ 1992 Merger Guidelines expressly recognizes that cost savings and other efficiencies can increase the competitiveness of firms and "result in lower prices to consumers." See also 1999 DOT Report and 2000 DOT Report, cited above.

The primary cost benefits from the American/British Airways alliance will result from coordination of sales and airport operations, joint promotions and marketing, and joint purchasing. In addition, the two carriers anticipate significant efficiencies from integration in the areas of inventory management and fleet optimization.

The Department's 1994 study on codesharing and other cooperative arrangements recognized the benefits that can be achieved through antitrust immunity for allied carriers in the international marketplace:

> "The strongest type of airline alliance can be formed when two airlines are granted antitrust immunity. The granting of antitrust exemption permits carriers involved in international alliances to discuss and jointly decide on fare levels and the capacity deployed.... The result is that both airlines can aggressively market service in every city-pair market they serve.
>
> "Antitrust immunity is a powerful business tool in permitting carriers that exist as separate corporate entities to act as one business firm. Absent the legal ability to merge, antitrust immunity may yield many of the benefits of merger while avoiding prohibitions against international ownership.
>
> "Antitrust immunity allows alliance partners to share revenue equally, assuring that both carriers can capture the benefits of the alliance" (Study of International Airline Codesharing, Prepared for the Office of the Secretary of Transportation, December 9, 1994, p. 9).

Just as the Department has provided Northwest/KLM and United/Lufthansa/SAS/Austrian with the benefits of antitrust immunity to compete in the global marketplace, so too should the Department accord the benefits of antitrust immunity to the proposed American/British Airways alliance.

VIII. THE AMERICAN/BRITISH AIRWAYS ALLIANCE AGREEMENT MEETS THE APPLICABLE LEGAL STANDARD FOR APPROVAL AND ANTITRUST IMMUNITY

In relevant part, the controlling statute provides that the Department "shall approve an agreement...when the Secretary finds it is not adverse to the public interest and is not in violation of this part." 49 USC 41309(b). The Department has discretion to grant antitrust immunity to agreements approved under Section 41309 if it finds that immunity is required by the public interest. 49 USC 41308. The Department's established policy is to grant antitrust immunity with respect to agreements that are found not substantially to reduce or eliminate competition, if the Department concludes that antitrust immunity is required in the public interest, and that the parties will not proceed with the transaction absent antitrust immunity. See Order 96-5-27, May 21, 1996, p. 17 (United/Lufthansa); Order 93-1-11, January 11, 1993, p. 11 (Northwest/KLM).

The proposed American/British Airways alliance clearly meets the public interest test. Since the alliance will not substantially reduce or eliminate competition, but will stimulate more vigorous competition and consumer choice, the Department should approve the alliance and grant it antitrust immunity on an expedited basis.

A. Joint Operations Will Enable The Alliance To Offer New And Improved Services

Section VII describes the substantial public benefits that will accrue from an integrated alliance between American and British Airways. These benefits, which mirror those achieved by previously immunized transatlantic alliances, include the ability to provide passengers and shippers with greater choice and improved, seamless service throughout an expanded international alliance route network, while also increasing the scope of each carrier's frequent flyer program. In addition, the cost benefits and efficiencies that can be obtained from an integrated alliance operation will be passed on to consumers in the form of superior service and lower fares.

There is ample evidence that international alliances generate benefits to consumers, and are in the public interest. As noted above, the Department's December 1999 report, International Aviation Developments: Global Deregulation Takes Off, demonstrated the significant pro-competitive effects of multinational alliances in transatlantic markets. That report identified pro-competitive changes in industry structure, including better and more competitive service as alliances expand and overlap. It documented tangible consumer benefits, both in terms of improved service and price reductions. It noted important consequences of alliance development not just for air travel consumers, but for local and national economies as well, due to greatly increased air travel.

The Department's follow-up report, <u>Transatlantic Deregulation, The Alliance Network Effect</u>, issued in October 2000, bolstered the conclusion that as transatlantic deregulation unfolds, competition has intensified and provided consumers with significant price benefits. The Department found that deregulation is at the heart of transatlantic traffic growth; that consumer demand and increased competition are driving airlines to access as many markets and passengers as possible in the most efficient way possible; and that alliance-based networks are the principal driving force behind transatlantic price reductions and traffic gains. The Department concluded that "[t]he 'Alliance Network Effect' will therefore play a key role in the evolving international aviation economic and competitive environment" (p. 5).

Former Assistant Secretary for Aviation and International Affairs Charles Hunnicutt stated that "[w]e have found that international alliances enhance, not reduce, competition. We have also determined that they have produced additional valuable public benefits, such as providing millions of consumers and thousands of communities with improved air service and lower fares" (remarks before the World Travel and Tourism Annual Conference, Berlin, Germany, March 8, 1999). He specifically noted that "the improved service and competition offered by [transatlantic] alliances have lowered fares in many international aviation markets" (id.).

Former Deputy Secretary Mortimer Downey elaborated that "[o]ur studies of the U.S.-North Atlantic aviation market confirm that the existing airline alliances are competing and that their competition is producing substantial public benefits. For example, improved service and competition that alliances offer have resulted in a decline in average fares in U.S.-Europe markets. Since 1996, when a number of open skies agreements went into effect, North Atlantic airline passenger traffic has increased by 8 percent annually" (remarks before the Global Air & Space '99 Conference, Crystal City, Virginia, May 3, 1999).

B. The Applicants Will Not Proceed With The Proposed Transaction Absent Antitrust Immunity

The full network benefits of the American/British Airways alliance will not occur absent the Department's grant of antitrust immunity. The Department has acknowledged that, without antitrust immunity, airlines may be precluded from forming alliances which offer significant competitive and efficiency benefits. See Order 2000-10-13, October 13, 2000, p. 13 (SAS/Icelandair) ("the record suggests that the joint applicants could be subject to extensive and burdensome anti-trust litigation if we did not grant immunity...[and] also persuades us that they will not proceed without it"); Order 96-5-12, May 9, 1996 (show-cause), p. 26 (United/Lufthansa) (the applicants "could be exposed to liability under the antitrust laws if we did not grant immunity"); GAO Report to Congressional Requesters, April 1995, p. 30 ("the key benefit of immunity...is the protection from legal challenge by other airlines," thereby allowing the participants "to more closely integrate their operations and marketing than they otherwise would for fear of legal reprisal").

Legal, operational, and financial obstacles effectively preclude the formation of integrated international route networks either by merger or by the unilateral expansion of a single carrier's system. See Statement of United States International Air Transportation Policy, 60 Fed. Reg. 21841, 21842, May 3, 1995. Expansion by means of alliances remains the only option, and the feasibility of alliance formation is predicated on securing antitrust immunity.

American and British Airways submit that the full public benefits offered by their proposed alliance cannot be achieved absent antitrust immunity. The establishment of a fully integrated alliance network depends on the ability of alliance carriers to coordinate prices, routes, schedules, sales, marketing, and inventory, and to develop common strategic and financial objectives in order to compete with other antitrust-immunized international alliances. In the absence of immunity, such activities could expose the joint applicants to disruptive and expensive antitrust litigation, with potential exposure to treble damages liability. Therefore, American and British Airways have determined that it is not feasible to proceed with their proposed alliance absent antitrust immunity.

C. The Alliance Will Not Substantially Reduce Competition In Any Relevant Market

The Department has in past orders examined competition in global markets, U.S.-Europe, U.S.-foreign country, and overlapping city-pairs in determining the effect of a proposed transaction. As we show below, the proposed American/British Airways alliance will not substantially reduce or eliminate competition in any relevant market.

1. Global Market

The American/British Airways transaction will boost competition in the global air transport services market. As the Department has recognized, there exists today "a worldwide aviation market in which travelers have multiple competing options for reaching destinations over multiple intermediate points." Order 99-4-17, April 22, 1999 (show-cause), p. 15 (American/Lan Chile). The global market is driven by a number of competing global network systems, including "integrated alliances that can offer a multitude of new online services to a vast array of city-pair markets, on a global basis" (id.).

The addition of American/British Airways to the ranks of immunized global alliances will create additional consumer choice, and enhance competition in the international marketplace. The American/British Airways alliance will improve service and competition in 24,890 city-pairs that it can potentially reach, benefiting millions of passengers who travel on the routes the alliance serves. As noted above, the alliance will provide substantial benefits in the form of lower fares.

Moreover, by combining networks and passenger demand, the alliance will maintain and potentially improve service to smaller cities that cannot sustain more frequent nonstop service by one of the parties acting alone. The alliance will also be able to start new service in smaller markets where no nonstop service currently exists. With such new service, the alliance will link more cities by convenient connections than were previously available, and will be well-placed to compete with Star, Wings, and SkyTeam.

Although large enough to offer an impressive scope of global service, the American/British Airways-oneworld alliance will not be the largest international aviation arrangement by any reasonable measure. The largest such alliance will continue to be Star. Compared to Star, oneworld will have less annual operating revenue, carry fewer annual passengers, serve fewer total destinations, account for fewer annual revenue passenger miles, have fewer aircraft, and have fewer employees. See Exhibits JA-2 and JA-6. What the American/British Airways-oneworld alliance will do is offer a competitive scope of service to compete with the other global alliances.

2. U.S.-Europe Market

An immunized alliance between American and British Airways will not substantially reduce competition in the U.S.-Europe market. As the Department recently found in Order 2000-10-13, October 13, 2000, p. 10 (SAS/Icelandair), "[t]he U.S.-Europe marketplace is highly competitive. Eight U.S. airlines provide scheduled passenger service in this market from their hubs, either individually or in conjunction with an existing alliance. The U.S.-Europe market is also served by more than 30 foreign airlines, principally from hubs in their homelands." In these circumstances, the proposed integration of transatlantic operations by American and British Airways will enhance competition in the U.S.-Europe market by increasing their ability to compete against other carriers and alliances.

3. U.S.-U.K. Market

The U.S.-U.K. market includes some of the world's most dense and competitive routes. Effective competition will continue on these routes following implementation of the proposed alliance. Indeed, the U.S.-U.K. market is already fiercely competitive, with nonstop service by more major carriers than any other U.S.-Europe market.

In addition, the alliance will trigger a long-sought U.S.-U.K. open skies bilateral agreement. That, in turn, will allow substantial new entry, as well as permit an increase in the frequency of services offered by existing competitors. In addition to removing limits on capacity and on access to London's Heathrow Airport, an open skies agreement will eliminate pricing restrictions, thereby enhancing competition in beyond city-pairs.

In the U.S.-U.K. market, the proposed alliance promises greater consumer benefits than other immunized alliances have generated on their respective country-to-country routes. Indeed, while the benefits resulting directly from the proposed alliance are far-reaching, the potential for harm to competition in the U.S.-U.K. market is significantly less than the reduction in competition from other alliances that have already received antitrust immunity.

Simply adding the current shares of nonstop frequencies of American and British Airways in the U.S.-U.K. market yields a combined 49.2% share. Compared to the U.S.-foreign homeland shares of the other alli-ances, American and British Airways will be at the low end, without even taking into account the reduction in the applicants' market share that is certain to occur with new competition under open skies. As shown in Exhibit JA-7, the Star Alliance has produced a combined nonstop frequency share of 100% in the U.S.-Austria, Denmark, and Norway markets. Northwest and KLM have a 65% nonstop frequency share in the U.S.-Netherlands market. United and Lufthansa have a 63% share of nonstop frequencies in the U.S.-Germany market.

However, such a measure clearly overstates the future competitive significance of the American/British Airways alliance in the U.S.-U.K. market. Once an open skies agreement is implemented, there will be a large increase in new service. Even if American and British Airways were to expand their services, their share can be expected to decrease significantly, as the total market size grows and other carriers enter and expand. Historic market shares also fail to account for developments such as the addition of BMI to the Star Alliance, thereby establishing Heathrow as the only two-alliance hub in Europe, and the potential immunity for the Delta/Air France/ Alitalia/CSA SkyTeam alliance.

In addition to the direct benefits of new competitive flights sure to be triggered by the proposed alliance and by open skies, several key structural factors ensure greater competition in the U.S.-U.K. market than has occurred in other country-to-country alliance markets.

First, U.S.-U.K. routes tend to have higher traffic density, and generally a greater proportion of business travel, than other U.S.-Europe routes. These factors promote entry and sustained competition, because point-to-point services may be viable based solely on local traffic, and without support from significant hub feed.

Second, traffic (and therefore new entry) is enhanced by the abundant business and cultural ties between the U.S. and the U.K. These factors will continue to assure that the two countries remain highly attractive destinations for one another's citizens for both business and leisure travel.

Third, the London gateway includes three airports with scheduled transatlantic service. In addition to Heathrow, Gatwick (and more recently Stansted) are increasingly used for long-haul international flights, including to U.S. cities. All three offer full-service facilities and direct rail access to central London.

Gatwick has been a gateway to the U.S. for transatlantic flights for years, serving many business travelers who are beginning to use Stansted as well. Between 1999 and 2000, passenger traffic between Heathrow and all U.S. destinations increased by 3%, while passenger traffic between Gatwick and all U.S. destinations increased by 9%.[6] For many passengers, Gatwick is more convenient than Heathrow. Gatwick, moreover, has 30-minute express train service to central London's Victoria Station leaving every 15 minutes. A third of all U.S.-London passengers use Gatwick today, and it is one of the busiest transatlantic airports in Europe as measured by operations. Gatwick continues to be increasingly attractive to airlines and transfer passengers, and increasingly competitive as a United Kingdom gateway.

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[6]U.K. Civil Aviation Authority, U.S. Airports - Annual Statements of Movements, Passenger and Cargo, Table 12 (2000).

Stansted Airport is a modern and uncrowded facility offering another alternative to Heathrow and Gatwick for service to London, the U.K., and various points within Europe. Stansted has good access to London (including a direct rail link), its facilities are spacious and convenient, and its costs are lower for airlines providing service there.

Continental began daily scheduled nonstop service between New York/Newark and Stansted on May 1, 2001. Continental's service will obviously increase Stansted's recognition among travelers from the United States and may encourage other airlines to offer similar service. Indeed, a new all-business class airline -- Blue Fox Executive Airlines -- has announced that it will launch twice-daily flights between Stansted and New York in May 2002, to be followed by all-business class service to Boston, Chicago, Washington, D.C., San Francisco, and Los Angeles.[7]

Continental's new Stansted service is "expected to draw traffic away from Heathrow," and will be particularly attractive to the "600,000 passengers a year [who] fly between New York and London, but live or work in the Stansted catchment area." See Financial Times, October 11, 2000, p. 6; see also

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[7]Blue Fox plans to lease five B767-300 aircraft for its operations, configured in a single-class, 138-seat 2-2-2 layout with 50 inch seat pitch. See "Blue Fox Executive Plans Unveiled," Airliner World Magazine, July 2001.

International Herald Tribune, October 27, 2000, p. 13. Trains between Stansted and central London are available every 15 minutes, and the airport plans to spend at least 450 million pounds over the next five years on improvements to transportation links to London. See "Airport to Improve Links," UK Newsquest Regional Press, November 23, 2000.

All three London airports are located within 35 miles of central London, and each of them is connected to London by direct rail access. Given their proximity to London and the growing number of flights to the United States from Stansted, it is not surprising that there is substantial overlap between the catchment areas of these airports, which therefore largely compete for the same passengers.

When compared to the other immunized alliances, the American/British Airways proposal will bring far greater benefits, and without any greater potential for competitive harm in global or country-pair markets. The competitive benefits of open skies are clear: the alliance partners' current market shares are certain to decrease, and new entry is assured. There is no need for government-imposed remedies to protect competition, and there are compelling reasons to grant the requested immunity so that consumers may benefit from all of the advantages that open skies and the alliance will bring.

4. Nonstop City-Pair Overlaps

American and British Airways have overlapping nonstop services on only six U.S.-London city-pair routes -- London to New York, Boston, Chicago, Los Angeles, Miami, and Dallas/Ft. Worth. Competition on most of these routes has increased substantially since American and British Airways first sought antitrust immunity in 1997. On all but one, Dallas/Ft. Worth-London, there is at least one competitor with nonstop service, and one competitor with codeshare service. On the densest route, New York-London, there are already five other competitors providing nonstop service. On most of the overlap routes, competitors provide significant one-stop competitive service.

Once an open skies agreement is reached between the U.S. and the U.K., it can be expected that several competitors -- including at least Continental, Delta, United, Virgin, and BMI -- either will enter one or more of these overlap markets, or expand their existing services. On those few routes where there will be little or no nonstop competition, the proposed alliance will face competing one-stop connecting services, and broad and vigorous inter-network alliance competition.

A detailed competitive analysis of each of the six overlap nonstop routes is presented in Exhibit JA-8. That analysis is summarized below.

(i) New York-London

Competition on the New York-London city-pair is intense and will continue to be so, with Continental, United, Virgin, Air India, and Kuwait Airways all providing nonstop service, and Continental and Virgin offering reciprocal code-sharing service. Moreover, Delta and BMI are likely to enter this market after an open skies agreement is reached. Their entry will enhance the competitive strength of their respective alliances, SkyTeam and Star. In addition, Virgin is reportedly planning to commence an all business-class service between New York and London targeting premium customers, and both Continental and Virgin likely will switch their New York-Gatwick service to Heathrow after open skies.

The New York-London market has become much more competitive since 1996, with total weekly nonstop frequencies increasing by 32, from 174 to 206, based on Summer 1996 and Summer 2001 schedules. United has increased its service between JFK and Heathrow from 21 weekly frequencies to 28. Virgin has added seven weekly frequencies between JFK and Heathrow, and seven between Newark and Gatwick, to complement the 14 weekly frequencies it already had between JFK and Heathrow, and the seven it had between Newark and Heathrow. In addition to its own significant service to both Heathrow and Gatwick, Virgin also now offers daily codesharing service between Newark and Gatwick operated by Continental. And, as noted above, Continental recently commenced nonstop service between Newark and London Stansted.

The New York-London route is extremely dense, and is highly attractive to new entry. We expect that additional airlines, such as Delta and possibly BMI, will enter this market with nonstop service between JFK and Heathrow after open skies.

In sum, after open skies, there will likely be at least five major U.S. and U.K. airlines -- Continental, Delta, United, Virgin, and BMI -- operating nonstop service between New York and London in competition with American and British Airways. It is hard to name any other major international city-pair that is so fiercely competitive.

(ii) Boston-London

There will continue to be significant competition in the Boston-London city-pair after approval of the proposed alliance. Delta, United, and Virgin all provide daily nonstop service, and Continental offers codesharing service with Virgin. Moreover, both US Airways and BMI have previously sought authority to serve this highly desirable route, so additional entry after an open skies agreement is very likely.

Since 1996, the combined share of nonstop frequencies operated by American and British Airways between Boston and London has declined, and with the recent entry of Delta, is likely to do so further. This share decline will continue after open skies, with projected new entry by US Airways and/or BMI.

(iii) Chicago-London

There will continue to be significant nonstop competition on the Chicago-London route following implementation of the proposed alliance. The Chicago-London city-pair is unique in that two competing airline alliances -- Star and oneworld -- both maintain transatlantic hubs at each end of the route. Two powerful competitors -- United and Virgin -- operate nonstop service between Chicago and Heathrow in competition with American and British Airways, and both carriers may expand Chicago-Heathrow service following open skies. Moreover, BMI has now announced it will initiate daily service between Chicago and Heathrow once open skies allows it to do so. The result will be rival hubs at both ends of the route, making the Chicago-London market uniquely competitive.

United is a particularly formidable competitor in the Chicago-London market. With 21 weekly frequencies to Heathrow, more than British Airways operates, Chicago-Heathrow is United's top international route from O'Hare. United accounts for nearly 30% of frequencies between Chicago and London, and generally outpaces American at O'Hare by several measures, including percentage of seats, jet gates, and daily jet departures (Exhibit JA-8, p. 38).

Since 1996, two new competitors -- Virgin and Air India -- have initiated nonstop service between Chicago and London, adding a combined nine weekly frequencies. In addition, United has expanded its service threefold, from seven weekly frequencies to 21. In 1996, the three carriers then operating on the route offered a total of 42 weekly frequencies during the summer season. The total number currently flown is 72 -- an increase of 30 weekly frequencies. American accounted for only seven of these additional weekly frequencies, and British Airways accounted for none. Thus, competitors have added 23 weekly frequencies, or more than three per day, in the Chicago-London market since 1996.

In addition to nonstop competition from United and Virgin, one-stop connecting flights constitute a viable competitive alternative in the Chicago-London market for all passengers, including unrestricted fare business travelers. In 2000, about 7% of all O&D passengers flying between Chicago and London opted for one-stop connecting service. Even with respect to passengers considered to be time sensitive, namely those traveling on unrestricted fares, an average of 5.3% of such passengers chose an indirect routing over the five-year period since 1996. See Exhibit JA-8, p. 41.

Competitive Chicago-London connecting routings are offered by United via Washington (Dulles), Northwest via Detroit, Continental via Cleveland and Newark, Delta via Cincinnati, KLM via Amsterdam, and Air France via Paris. As shown in Exhibit JA-8, Table 12, there are numerous competitive connecting flights between Chicago and London that have desirable departure and arrival times, multiple weekly frequencies, and reasonable intermediate ground times.

(iv) Los Angeles-London

Three carriers -- Virgin and Star Alliance partners United and Air New Zealand -- will continue to provide nonstop service between Los Angeles and Heathrow in competition with American and British Airways. Virgin alone offers 14 weekly frequencies between Los Angeles and Heathrow (the same number as British Airways), having added seven since 1996.

American and British Airways account for 44% of weekly nonstop frequencies on the Los Angeles-London route, but only 33% of passengers. Virgin has a roughly equal passenger share at 32%. See Exhibit JA-8, p. 52. United and Air New Zealand also have significant shares of nonstop traffic on this route. United operates a hub at Los Angeles, and is in a position of strength to compete vigorously for Los Angeles-

London traffic. In addition, the Los Angeles-London market is highly attractive to new entry, and Delta may be expected to initiate nonstop service following open skies.

Moreover, connecting service is highly competitive with nonstop service on the Los Angeles-London route. First, the long duration of the nonstop segment (on average 12 hours) means that the additional time needed for a stop is a small percentage of the overall flight time. Second, all U.S. carriers serving London have hubs east of Los Angeles, providing non-circuitous connecting alternatives.

Ten percent of passengers flying between Los Angeles and London in 2000 opted for an indirect flight, which is significant given the large number of nonstop services. About 7.3% of unrestricted fare passengers chose indirect instead of nonstop service over the five-year period since 1996. See Exhibit JA-8, p. 54.

Competitive Los Angeles-London connecting routings are offered by Continental via Houston and Cleveland, Delta via Cincinnati, Northwest via Minneapolis/St. Paul, United via Washington (Dulles), Chicago, and San Francisco, KLM via Amsterdam, and Air France via Paris. As shown in Exhibit JA-8, Table 19, there are numerous competitive connecting flights between Los Angeles and London that have desirable departure and arrival times, multiple weekly frequencies, and reasonable intermediate ground times.

(v) Miami-London

Following approval of the American/British Airways alliance, competition will remain vigorous in the Miami-London city-pair, which is largely a leisure market. Virgin provides nonstop service between Miami and London, United and several other airlines provide competitive online connecting service, and Continental offers codesharing service with Virgin. Moreover, BMI has now announced firm plans to enter this market.

Although American and British Airways combined operate 75% of the nonstop frequencies between Miami and London, they carry only 54% of O&D passengers. Virgin operates 25% of the nonstop frequencies, yet carries 36% of passengers, or more than twice American's current 15%. See Exhibit JA-8, p. 47. The gap between Virgin's shares of frequencies and passengers demonstrates that Virgin is a highly effective nonstop competitor. Moreover, Virgin's continued success on this route belies any notion that it may have suffered from having switched its service from Heathrow to Gatwick in 1999. Virgin's passenger share did not change materially as a result of that switch, nor did those of American and British Airways, which operate between Miami and Heathrow. The entry of BMI will ensure the presence of two major competitors on the Miami-London route.

Moreover, one-stop connecting flights constitute a significant competitive constraint on nonstop flights between Miami and London. In 2000, 13.3% of O&D passengers flying between Miami and London chose an indirect flight, and over the five-year period since 1996, an average of 6.1% of unrestricted fare passengers flying on this route chose to use an indirect service. See Exhibit JA-8, p. 49.

Competitive Miami-London connecting routings are offered by United via Washington (Dulles) and Chicago, US Airways via Philadelphia, Northwest via Detroit, Continental via Newark, Delta via Atlanta, and Air France via Paris. As shown in Exhibit JA-8, Table 17, there are numerous competitive connecting flights between Miami and London that have desirable departure and arrival times, multiple weekly frequencies, and reasonable intermediate ground times.

(vi) <u>Dallas/Ft. Worth-London</u>

Dallas/Ft. Worth-London is the only one of the six overlap routes on which there is currently no nonstop competition to American and British Airways. Nonetheless, one-stop connecting competition serves as a significant constraint on nonstop service, and will continue to do so following implementation of the alliance. In 2000, 30.1% of all O&D passengers flying between Dallas/Ft. Worth and London chose indirect flights, and 19.1% did so excluding indirect flights offered by American and British Airways. Over the five-year period since 1996, an average of 17.6% of all unrestricted fare passengers on this city-pair chose to use an indirect service. See Exhibit JA-8, p. 43.

Highly competitive Dallas/Ft. Worth-London connecting routings are offered by Continental via Houston and Newark, Delta via Atlanta, Northwest via Detroit and Minneapolis/St. Paul, and United via Chicago and Washington (Dulles). In addition, Air France recently added nonstop service from Dallas/Ft. Worth to Paris, with connections to London. As shown in Exhibit JA-8, Table 14, there are numerous competitive connecting flights between Dallas/Ft. Worth and London that have desirable departure and arrival times, multiple weekly frequencies, and reasonable intermediate ground times.

Finally, after open skies there will be significant new entry on other routes between various U.S. points and London, as well as expansion by airlines already flying to London. For example, United is expected to increase its weekly frequencies from Chicago, Delta is expected to add service from Atlanta, and Continental is expected to add service from Houston. Thus, passengers traveling between Dallas/Ft. Worth and London will benefit from a broader selection of departure and arrival times via Chicago, Atlanta, and Houston, thereby enhancing the attractiveness of indirect service for passengers in the Dallas/Ft. Worth-London market. Fare deregulation after open skies will promote indirect competition even further by allowing indirect service providers to price lead, which they are currently prohibited from doing.

In sum, whether or not new nonstop entry on the Dallas/Ft. Worth-London route occurs in the near term, ample one-stop connecting routings, both existing and projected, will continue to be widely available to allay any regulatory concerns.

IX. BUSINESS PASSENGERS WILL BE AFFECTED POSITIVELY BY THE AMERICAN/BRITISH AIRWAYS ALLIANCE

Earlier concerns about impacts on business (unrestricted fare) passengers, predicated largely on the notion that such passengers are rigidly time sensitive and inflexible, are not warranted.

Business passengers are not a homogeneous group. They are diverse with individual demands. Factors affecting their choice of airline on any particular route include price, schedule convenience, elapsed time, quality of service, convenience of departure and arrival airport, connecting reliability and customs handling, and itinerary change convenience. The relative significance of each factor varies from passenger to passenger and trip to trip. In addition, the choice of airline is now strongly influenced and sometimes determined by other factors, including membership in frequent flyer programs and enforced corporate travel policies. Business travelers are more often using connecting and one-stop services consistent with these factors.

Airlines, like any other business, must set prices taking into account the responsiveness of aggregate demand within a fare class to fare changes. An airline cannot raise an unrestricted business class fare selectively, for example, only to those travelers who would be willing to pay the higher fare. Airlines must take into account the likely response by all passengers purchasing the same unrestricted fare on that flight. What matters is how many passengers would be willing to switch to another carrier, or to a lower class of service on the same carrier, rather than pay the higher fare. The loss of only a few passengers to competing service (nonstop or one-stop), or to a cheaper fare class, can make a small non-transitory price increase unprofitable.

The reality is that an increasing number of so-called time-sensitive business passengers travel in economy class and buy economy tickets, and that choices of airlines for business passengers are increasingly based on factors other than travel times. More business passengers are opting for connecting service rather than nonstop flights. Of businesses surveyed with low fare policies, 46% require employees to use competitive connecting flights when the connecting fare is cheaper (American Express Survey of Business Travel Management 2000-2001, B18). Thus, fares for all passengers purchasing unrestricted fares are determined by the potential response of a smaller group of marginal passengers who change their travel arrangements rather than pay the higher fare.

Passengers purchasing unrestricted fares have a wide array of alternatives available in the face of an attempt by any nonstop carrier or alliance to increase unrestricted fares above competitive levels. These include nonstop service on other carriers, one-stop service (including online or code-sharing service of a competing carrier or alliance), or down-grading in service class or to a restricted fare on the same aircraft. Inter-alliance competition has sharply reduced the distinction between nonstop service and one-stop service, and the range of choices available to business travelers.

X. OTHER APPROVAL ISSUES AND CONDITIONS

A. Computer Reservations Systems

Consistent with the Department's decisions in Northwest/KLM, United/Lufthansa/SAS, and other immunity proceedings, the grant of antitrust immunity here should also cover the coordination of (1) the presentation and sale of the applicants' airline services in computer reservations systems, and

(2) the operations of their respective international reservations systems. In the Northwest/KLM approval, the Department determined that, while the coordination of CRS activities arguably could reduce competition, that concern was not so significant as to outweigh the justification for granting antitrust immunity. See Order 93-1-11, January 11, 1993, pp. 15-16. The same conclusion applies with equal force in this proceeding. We recognize, however, that the immunity will not extend to the joint applicants' management of any interest they may have in individual CRSs. See Order 98-10-20, October 20, 1999, p. 18 (American/Lan Chile).

B. Duration Of Approval And Immunity

The joint applicants request that the Department approve and grant antitrust immunity to their alliance for at least a five-year term, consistent with the duration of approval and immunity granted to Northwest/KLM (Order 93-1-11), United/Lufthansa (Order 96-5-27), United/Lufthansa/SAS (Order 96-11-1), Northwest/Malaysia (Order 2000-10-12), and other immunized alliances. As the Department concluded in Northwest/KLM, "a shorter term may not allow the full effect of the implementation of the agreement to become apparent. Furthermore, Section 414 [now 49 USC 41308] does not require us to review the implementation of the agreement within a shorter period of time" (Order 93-1-11, p. 16).

C. IATA Tariff Coordination

In conjunction with the Department's approval and grant of antitrust immunity to their alliance, American and British Airways are prepared to consent to the imposition of the now-standard condition prohibiting participation in certain IATA tariff coordination activities. See Order 96-6-33, June 14, 1996, p. 17 (Delta/Swissair/Sabena); Order 96-11-1, November 1, 1996, p. 19 (United/Lufthansa/SAS); Order 99-4-17, April 22, 1999 (show-cause), p. 22 (American/Lan Chile).

D. Use Of Common Service Name Or Brand

The joint applicants are prepared to accept a condition similar to that imposed on other immunized alliances; if they choose to operate under a common name or brand, they will seek separate approval from the Department prior to such operations. See Order 97-9-21, September 19, 1997 (United/Air Canada), p. 17.

E. O&D Survey Data Reporting Requirement

The joint applicants are also prepared to accept a condition whereby British Airways may be required to report full-itinerary Origin-Destination Survey of airline passenger traffic for all passenger itineraries containing a U.S. point, on the understanding that such data will be handled on a confidential basis by the Department. The joint applicants will accept such a data reporting requirement if it is consistent with that imposed on other immunized alliances.

XI. RESPONSE TO ADDITIONAL INFORMATION REQUIREMENTS

In order to expedite the Department's review and consideration of the American/British Airways application, we are submitting the following additional information, based on what the Department has required in other immunity proceedings, and on discussions with the Department's staff.

(1) Complete (i.e., unredacted) copies of all "agreements/arrangements," including joint marketing programs (for example, frequent flyer programs, agency override programs, market share programs, and other associated incentive programs, and prorate agreements), between American and British Airways and their affiliates.

Such documents are being submitted by American on behalf of both parties, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(2) Separate descriptions of each party's strategic objectives in forming the alliance agreement, addressing, in particular, why "worldwide" immunity is sought and is necessary to achieve those objectives. Provide complete details of cooperative activities that would require antitrust immunity and the alliance's plans for each, including, but not limited

to, sales and marketing strategies, scheduling, capacity allocation and management, and pricing and revenue management.

American. By extending its network through an alliance agreement with British Airways, American seeks to increase its competitiveness in the global marketplace, in particular with respect to the Star, SkyTeam, and Wings alliances. In addition, American hopes to increase its passenger and cargo revenues by capturing additional traffic on (1) U.S.-U.K. online routes, (2) U.S. domestic segments of routes between the U.S. and the U.K. and beyond, and (3) U.S.-third country routes served by American.

British Airways. British Airways has entered into the proposed alliance in order to enhance its ability to compete in the global marketplace. International alliances are necessary to provide customers with both improved products and services and access to global markets. American and British Airways are already network carriers, and each of them thinks that its future is in expanding and developing this role. To continue to compete effectively, American and British Airways must be on equal terms with the other major alliances that are now developing and expanding with the benefit of antitrust immunity. In particular, neither British Airways nor American alone could match global alliances, such as Star and Wings, which can carry passengers on a single carrier code on tens of thousands of city-pair routes.

To remain competitive for traffic between the United States and Europe, British Airways needs a U.S. partner with an extensive domestic network. Most U.S. domestic points cannot support direct services to Europe, and due to regulatory restrictions and practical considerations, British Airways cannot provide service between U.S. gateways and interior U.S. points. Therefore, British Airways needs a U.S. partner and immunity to ensure that it can compete satisfactorily for this traffic.

The combination of British Airways and American is a good fit, involving largely complementary end-to-end services, with only six overlapping nonstop routes. The two airlines' philosophies and managements are similar, which will enable them to work together well. Thus, British Airways believes that it has found the U.S. partner that will enable both airlines to compete with other global alliances serving the U.S.-Europe and beyond markets.

Details of cooperative activities. Details of cooperative activities contemplated between American and British Airways following receipt of antitrust immunity are summarized in Sections VI and VII above, and set forth in Exhibit JA-1.

(3) All studies, surveys, analysis, and reports (dated, created or revised since May 31, 1999, completed either by American and/or British Airways staff or agents acting on their behalf) that identify, examine, forecast, and/or quantify the effects and benefits of the American-British Airways-oneworld alliance. The documents provided should be complete, with all backup detail, and should include complete analyses with respect to market shares, competition, competitors, fares, markets, potential for traffic growth or expansion into geographic markets. (If not contained in the document itself, include the date of preparation, the name and title of each individual who prepared each document).

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(4) All corporate documents (dated, created, or revised since May 31, 1999, completed either by American and/or British Airways staff or agents acting on their behalf) that address the subject of competition in air travel between the U.S. and the U.K., as well as air travel beyond/behind the U.K. from/to the U.S.

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(5) All analyses, studies, or reports in possession of either American or British Airways that address any preference of airlines or travelers for use of Heathrow Airport over any other U.K. airports, including any studies assessing any actual or potential economic advantages to, or plans of, any partner for serving Heathrow rather than Gatwick Airport or other U.K. airports (dated, created, or revised since May 31, 1999, and completed either by the staff of either partner or by any third party, regardless of whether they were acting on behalf of one or both partners).

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(6) All documents dated, created, or revised since May 31, 1999, discussing any service or operational changes anticipated at the partners' hub airports, resulting from the proposed alliance. Provide a detailed description of plans to optimize services, traffic flows, and revenues at all key alliance network hubs, particularly given existing service overlap on transatlantic, European, and other routes. Include a discussion of the criteria by which services, traffic, and revenues will be evaluated and optimized at Gatwick and Heathrow Airports on the one hand, and where network flows are concerned, Brussels and Zurich, on the other hand.

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

American and British Airways will coordinate planning efforts to offer customers a wider choice of travel options at competitive prices, to optimize aircraft capacity and ground facilities, and to enhance connecting opportunities within their respective networks. This process will require that American and British Airways jointly assess their U.S.-Europe schedules, and connecting opportunities at their U.S. and U.K. gateways in order to build a core network alliance for their customers traveling between, and beyond and behind, trans-atlantic gateways.

The main elements of planned schedule coordination are as follows:

(i) Co-location of flights to the same destinations in the same airport terminals (and where possible increasing the number of opportunities to make connections to other British Airways and American services without changing terminals),

(ii) Retiming of flights to ensure that American and British Airways provide a complementary choice of flight timings and reduced connection times, and

(iii) Optimization of aircraft capacity, configurations, and schedules to better meet customer preference and achieve efficiencies.

Anticipated benefits to customers from these changes include improved choice of flights, increased seat availability on prime time flights, ability of the alliance to reduce prices and increase services as a result of efficiencies, increased connecting traffic flows, and more connecting opportunities and convenient transfers.

The parties will jointly develop revenue plans and forecasts for services on these routes. Coordination will enable the parties to better predict demand, and reduce the need to over-allocate seats to higher fare classes. This will permit more accurate booking practices, and the possibility of offering more lower fare seats.

American will continue independently (without coordination) to manage revenue and assess schedule opportunities for other European gateways (including, in particular, Zurich and Brussels) served by the separate American/Swissair/Sabena alliance. In doing so, American will take into account comparative elapsed travel times, circuity of alternative routings, relative density of traffic and passenger demand, number of connecting complexes, and the quality and number of available connections at each airport.

For O&D routings on which the American/British Airways alliance and the American/Swissair/Sabena alliance would compete for traffic between the U.S. and Europe, there are several competitive online choices, as well as competing alliance networks on each city-pair. An American/British Airways alliance would either add new online service on many O&D routes currently only offered on an interline basis over Heathrow, or at a minimum leave unchanged the amount of online service currently available over Heathrow on O&D routes served by American/Swissair/Sabena.

Additional information on the plans and the criteria for optimizing services, traffic flows, and revenue at Heathrow, Gatwick, and the U.S. network cities is set forth in the alliance agreement (Exhibit JA-1), and in many of the documents submitted separately by American and British Airways under a joint motion for confidential treatment.

(7) <u>British Airways has stated that it has changed its operating strategy on the North Atlantic by increasing its focus on point-to-point traffic and reducing capacity through down gauging of aircraft size and reducing the total number of seats per aircraft. Describe any impact of this strategy on the proposed American-British Airways-oneworld alliance operational and marketing strategies, and any competitive</u>

implications, including for business travelers, in the U.S.-London market.

British Airways' strategy is designed to reduce its proportional exposure to less profitable market segments, e.g., short-haul and connecting leisure passengers traveling on heavily discounted fares, while strengthening British Airways' position in more profitable segments, e.g., business travel markets. Associated product changes include the introduction of the new flying bed for Club World on long-haul aircraft, increased reliance on smaller aircraft, e.g., B777 equipment instead of B747 and A319/320 equipment instead of B757, and the introduction of World Traveler Plus, a new business/economy product. Although these configuration and product changes will reduce the total number of available seats, economy passengers (including World Traveler Plus) will continue to constitute over 80% of total passengers, even with full implementation of the strategy.

The strategy is being implemented independently of British Airways' relationship with American and/or oneworld, and British Airways does not now foresee significant impact vis-a-vis the proposed American/British Airways alliance.

British Airways anticipates that the new strategy will enhance competition, especially with regard to business travelers, by encouraging competing carriers to attempt to match the service improvements being introduced by British Airways. Indeed, other carriers serving the U.S.-U.K. market already have announced responsive service improvements.

(8) Provide complete information on whether the proposed arrangement involves any exchange of equity or other forms of cross-ownership between the partners. If any joint revenue and/or profit sharing agreement is proposed, provide the details of that agreement.

The proposed arrangement does not involve any exchange of equity or other forms of cross-ownership between American and British Airways. The proposed benefit sharing arrangement is described in Section VI.

(9) All documents dated, created, or revised since May 31, 1999 that show any consideration by either partner to seek additional immunized international alliances (other than that between American and British Airways) contemporaneous or subsequent to the present alliance. Specifically address plans for other oneworld partners and affiliates, as well as for American's existing immunized alliance with Swissair and Sabena.

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

For its part, American responds as follows. In March 2000, American filed an application for antitrust immunity with the TACA Group (OST-00-7088). In addition, American has from time to time considered seeking antitrust immunity for separate alliances with oneworld partners Iberia and Finnair.

In the case of Iberia, such an application is not feasible at the present time because of the restrictive bilateral air transport agreement between the U.S. and Iberia's home country, Spain. If the United States were to negotiate an open skies agreement with Spain, American would potentially seek to deepen its relationship with Iberia, depending on such factors as the ability of the parties to reach agreement on key commercial aspects of any alliance agreement, and then-prevailing economic and competitive conditions.

In the case of Finnair, the current open skies agreement between the U.S. and Finland would make an application for an immunized alliance between American and Finnair feasible. At such time as the carriers reach agreement on an alliance that goes beyond the codesharing and frequent flyer arrangements currently in place, they may apply for antitrust immunity. The timing of such an application would be dependent on then-prevailing economic competitive conditions, and the respective commercial and strategic priorities of the parties.

American anticipates that its immunized alliance with Swissair and Sabena will remain in effect following implementation of the American/British Airways immunized alliance. The agreement between American and British Airways does not contemplate any operational integration with Swissair or Sabena or any third party airline, or for Swissair or Sabena to join the oneworld alliance.

Finally, from time to time, American has hypothetically considered prospects for deepening its alliance relationships (including potentially seeking antitrust immunity) with various of its other codeshare and frequent flyer partners, but has no current plans to seek antitrust immunity with such carriers.

For its part, British Airways has no current plans to file with the Department for antitrust immunity with any other international alliance partner.

(10) <u>Identify and describe all current codeshare and/or marketing alliance arrangements between American Airlines and/or British Airways (jointly or independently) with all third-party airlines, and all such arrangements that the partners are now considering in the next 12-month period, that would affect transatlantic traffic flows</u>.

American

(1) Codesharing Arrangements

American-Gulf Air. Gulf Air is authorized to display the "AA" code on its Heathrow-Gulf Points flights (Notice of Action Taken, OST-96-1055, July 2, 1999), and American is authorized to display the "GF" code on its U.S-Heathrow flights (renewed under assigned authority, undocketed, March 8, 1999).

American-Kuwait Airways (cargo only). Kuwait Airways is authorized to display the "AA" code on its New York-Kuwait cargo flights (via London and Frankfurt) (renewed under assigned authority, undocketed, December 1, 1998).

American-LOT. LOT is authorized to display the "AA" code on its New York/Chicago-Warsaw flights (renewed under assigned authority, undocketed, December 10, 1998). American is authorized to display the "LO" code on various domestic flights beyond New York/Chicago (Department Action, OST-00-7369 and OO-7077, May 22, 2000).

American-Iberia. Iberia is authorized to display the "AA" code on Iberia's flights between U.S. gateways and Spain (Notice of Action Taken, OST-97-2965, OST-98-3626, and undocketed, April 30, 1998). American is authorized to display the "IB" code on various domestic flights beyond Iberia's U.S.

gateways, and beyond Miami to points in Central America (id.; Notice of Action Taken, undocketed, August 6, 1998; Order 98-12-6, December 7, 1998).

American-Finnair. American and Finnair are authorized on a blanket basis (subject to 30-day notice) to engage in reciprocal codesharing services by Department Action, OST-99-6544, January 7, 2000. Finnair currently displays the "AA" code on its New York-Helsinki flights. American currently displays the "AY" code on various domestic flights beyond Finnair's New York gateway.

American-Swissair. American and Swissair are authorized on a blanket basis (subject to 30-day notice) to engage in reciprocal codesharing services by Department Action, OST-99-5944, November 2, 1999. Swissair currently displays the "AA" code on its flights between U.S. gateways and Zurich, and beyond Zurich to various Swiss and third-country points. American currently displays the "SR" code on its flights between U.S. gateways and Zurich, and on various domestic flights beyond Swissair's U.S. gateways. In addition, American/Swissair/Sabena have antitrust immunity granted by Order 2000-5-13, May 11, 2000.

American-Sabena. American and Sabena are authorized on a blanket basis (subject to 30-day notice) to engage in reciprocal codesharing services by Department Action, OST-99-

5943, November 2, 1999. Swissair currently displays the "AA" code on its flights between U.S. gateways and Brussels, and beyond Brussels to various third-country points. American currently displays the "SN" code on its flights between U.S. gateways and Brussels, and on various domestic flights beyond Sabena's U.S. gateways. In addition, American/Swissair/Sabena have antitrust immunity granted by Order 2000-5-13, May 11, 2000.

American-Aer Lingus. Aer Lingus is authorized to display the "AA" code on its U.S.-Shannon/Dublin flights, granted by Order 2000-6-12, June 15, 2000. A renewal application, filed by Aer Lingus on May 15, 2001, is pending in OST-00-6728.

American-Turkish Airlines. Turkish Airlines is authorized to display the "AA" code on its New York/Chicago/ Miami-Istanbul flights (Department Action, OST-00-7151, July 20, 2000). American is authorized to display the "TK" code on various domestic flights beyond New York/Chicago/Miami (id., as amended on December 6, 2000 and March 14, 2001).

American-TAP Air Portugal. American and TAP are authorized on a blanket basis (subject to 30-day notice) to engage in reciprocal codesharing services by Notice of Action Taken, OST-00-7504, July 27, 2000. TAP currently displays the "AA" code on its flights from U.S. gateways to Lisbon. American currently displays the "TP" code on domestic flights beyond TAP's U.S. gateways.

(2) Marketing Alliance Arrangements

Among its codeshare partners listed above, American has frequent flyer agreements with Aer Lingus, Finnair, Iberia, Sabena, Swissair, and Turkish Airlines. American also has frequent flyer agreements with four other transatlantic carriers, British Airways, El Al, TWA Airlines LLC (a wholly-owned subsidiary of American), and US Airways. Copies of these agreements are being submitted by American on a confidential basis in response to item (10)(a), below.

(3) oneworld

American and British Airways, together with six other airlines, have formed a global marketing alliance under the brand "oneworld." In addition to American and British Airways, the original members of the oneworld alliance, which was formed in February 1999, were Canadian Airlines International, Cathay Pacific, and Qantas. Finnair and Iberia joined soon thereafter, followed by Aer Lingus and Lan Chile. Canadian subsequently left oneworld when it merged with Air Canada, resulting in the present total of eight members. A fact sheet profiling the current members of oneworld is set out in Exhibit JA-9.

The objective of oneworld is to provide customers with a high standard of interline and codeshare service on all flights operated by the member carriers, and to compete with other brand alliances such as Star, SkyTeam, and Wings. To secure these objectives, the members have agreed to implement frequent flyer reciprocity and recognition, reciprocal lounge access, and other measures to make the international travel experience more convenient and seamless for customers.

In addition to adopting a global brand for use in tandem with their individual brands and promotional activities, the oneworld carriers also agreed to implement check-in systems to permit boarding passes to be issued on flights operated by other members, install signage at airports to direct passengers to their connecting flights, support ticket interchangeability, and improve system automation. The parties further agreed to enter into or continue codeshare, frequent flyer, and airport lounge access agreements on a bilateral basis, and to recognize common standards for determining and rewarding top tier frequent flyer customers.

On the cost side, the member carriers agreed to identify savings opportunities through measures such as common ground handling and joint purchasing, and to enhance efficiency by, for example, sharing office or ticket counter space where appropriate.

The parties have also jointly developed new products such as the oneworld explorer ticket which allows passengers to fly around the world using any oneworld carrier for a single fare. A description of other oneworld products and services, and other general information, can be found at its website at www.oneworldalliance.com.

British Airways

(1) Codeshare and Marketing Arrangements

British Airways-Iberia. British Airways and Iberia have a reciprocal codeshare agreement covering behind/beyond points in the United Kingdom and Spain, as well as on services to Lima, Bangkok, and Bermuda. British Airways and Iberia also have a reciprocal frequent flyer program agreement and a network-wide lounge access agreement, in addition to Iberia's membership in oneworld.

British Airways-Finnair. British Airways and Finnair have a reciprocal codeshare agreement covering Heathrow and Helsinki and Heathrow and Stockholm, as well as on behind/ beyond points. In addition, the Finnair code appears on British Airways' services between Heathrow and Toronto. British Airways and Finnair also have a reciprocal frequent flyer program agreement and a network-wide lounge access agreement, in addition to Finnair's membership in oneworld.

British Airways-Aer Lingus. British Airways and Aer Lingus have a reciprocal codeshare agreement covering services between the United Kingdom and Ireland, as well as on behind/ beyond points. British Airways and Aer Lingus also have a reciprocal frequent flyer program agreement and a network-wide lounge access agreement, in addition to Aer Lingus' membership in oneworld.

British Airways-LOT. British Airways and LOT have a reciprocal codeshare agreement covering points in the United Kingdom and Poland. British Airways and LOT also have a reciprocal frequent flyer program agreement for services between the United Kingdom and Poland, and a lounge access agreement for business class passengers on flights between the United Kingdom and Poland.

British Airways-Malev. British Airways and Malev have a codeshare agreement for British Airways' code to appear on Malev's services between Gatwick and Budapest.

British Airways-America West. British Airways and America West have a codeshare agreement for British Airways' code to appear on America West services from Phoenix to 11 America West destinations, as well as on America West flights between Los Angeles and Las Vegas and San Francisco and Las Vegas, as authorized in OST-96-1359. British Airways and

America West also have a reciprocal frequent flyer program agreement.

British Airways-Alaska Airlines. British Airways and Alaska Airlines have a reciprocal frequent flyer program agreement.

(2) oneworld

See information provided above.

Discuss the effects of the proposed immunized alliance on these arrangements, including the American-British Airways participation in the "oneworld" alliance and the American-Swissair-Sabena immunized relationship. Indicate which arrangements will be continued and the terms upon which they will be continued.

When oneworld was conceived, it was hoped that, like other global alliances, it would have an immunized bilateral transatlantic relationship at its core. Due to the difficulties experienced by American and British Airways in their first attempt to gain antitrust immunity, the development of oneworld has been slower and less far-reaching than competing alliances such as Star and Wings, dominated, respectively, by the immunized United/Lufthansa and Northwest/KLM transatlantic relationships. Accordingly, American and British Airways hope and anticipate that a grant of antitrust immunity will encourage the further development and effectiveness of oneworld as a competitive counterweight against the other transatlantic and global alliances.

With respect to the above-referenced non-oneworld relationships, American and British Airways each intend to continue each of their existing codeshare and marketing relationships without significant change. Neither American nor British Airways anticipates that a grant of immunity for their alliance will materially affect any existing codeshare or marketing arrangements.

a. For arrangements that will be continued (either jointly or independently), provide complete copies of the current associated commercial agreements (for example, codeshare agreements, frequent flyer programs, agency override programs, market share programs, and other associated incentive programs, and prorate agreements), and specifically address how the overlap between the American-British Airways and any other such alliances will be managed in terms of capacity allocation, pricing, revenue and inventory management (distinguishing between local nonstop and flow traffic), and sales and marketing strategies.

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

For American's part, aside from its immunized alliances with Swissair/Sabena and Lan Chile, American does not coordinate price, schedule, or capacity with any of its other codeshare or alliance partners. See also response to item (10)(b) below.

For British Airways' part, as noted in its response to item (10) above, British Airways intends to continue each of its existing codeshare and marketing relationships without significant change.

b. <u>For arrangements that will be managed independently of the American-British Airways oneworld alliance, specifically address in detail how American and British Airways, respectively, will protect the integrity, competitiveness, and autonomy of these alliances</u>.

For American's part, its proposed alliance with British Airways will be managed and governed independently from its other immunized alliances. There will be no benefit sharing among British Airways, Swissair, Sabena, or Lan Chile, and none will have an equity or other financial interest in the other. The proposed American/British Airways alliance will not alter this circumstance. Thus, British Airways and Swissair/ Sabena will remain competitors within Europe and on transatlantic routes, although they do not currently compete nonstop on any services to or from the U.S.

For O&D routings on which the American/British Airways alliance and the American/Swissair/Sabena alliance will compete for traffic between the U.S. and Europe, there are several competitive online choices, as well as competing alliance networks on each city-pair. An American/British Airways alliance will either add new online service on many O&D routes currently only offered on an interline basis over Heathrow or, at a minimum, leave unchanged the amount of online service currently available over Heathrow on O&D routes served by American/Swissair/Sabena. Conversely, the American/Swissair/Sabena alliance offers online connection alternatives to the American/British Airways alliance that would not otherwise exist.

Further information concerning the independent management of the proposed American/British Airways alliance is contained in the alliance agreement and related schedules (Exhibit JA-1).

c. <u>For arrangements that will be phased out or terminated, provide a precise timetable for each</u>.

Neither American nor British Airways currently intends to terminate or phase out any of its other arrangements as a result of the proposed American/British Airways alliance.

11. A list of all international routes that each of the parties is currently serving, and the international routes that each would serve if the arrangement were approved. To the extent affecting international operations, fully identify all of the parties' current codeshare or alliance arrangements (independently or jointly) and their route systems, and any plans to alter such arrangements or alliances if the proposed arrangement were approved.

Lists of the international routes operated by the applicants are provided in Exhibits JA-10 (American) and JA-12 (British Airways). Lists of international routes marketed by the applicants are provided in Exhibits JA-11 (American) and JA-13 (British Airways). The parties' current codeshare and alliance arrangements are described in response to Item (10), and set forth in further detail in Exhibits JA-14 (American) and JA-15 (British Airways).

Neither American nor British Airways has any current plans to alter such arrangements or alliances if the proposed arrangement were approved.

(12) List all of the new markets that would receive first on-line service as a result of the alliance and provide estimates of the number of passengers that would benefit from this new on-line service and how many of these passengers would be U.S.-originating travelers. Exclude any markets in which no

new code is introduced in a given market as a result of the alliance due to an existing relationship with a third airline (e.g., British Airways-America West-Alaska, American-Swissair-Sabena, British Airways-Finnair, and American-LOT).

This information is provided in Exhibits JA-17 and JA-18.

(13) A comparison of the parties' schedules before implementation of the proposed alliance with the planned schedules to be implemented after implementation of the proposed alliance (defined as the earliest date at which current alliance service plans are expected to be fully realized). These schedules should include frequency, aircraft type, and number of seats for each operation. In addition, provide a summary of schedule, frequency, and equipment changes that the parties would expect to make within the first two years of DOT approval of the proposed alliance.

The parties have not yet finalized any schedule changes to be made after implementation of the proposed alliance. The parties may adjust their schedules in the future depending on market conditions and opportunities presented by the competitive environment.

(14) Provide directional origin and destination data (100% census) for all itineraries operated by American and/or British Airways (exclusively, jointly, or with third parties)

for the market sets identified below. In order to prevent duplicate reporting, American should submit data for all directional itineraries in which it was the ticketing carrier, and British Airways should submit data for all directional itineraries in which it was the ticketing carrier. For itineraries ticketed by a third party in which American (including American Eagle) operated at least one segment (including those itineraries in which British Airways also operated one or more segments), American should submit data for all directional itineraries. For itineraries ticketed by a third party in which British Airways operated at least one segment, but American did not, British Airways should submit data for all directional itineraries. A detailed file description is also requested at the time of submission.

Origin & Destination Airport Pair (defined by reference to CONCRS data):

(1) U.S.-LHR and U.S.-LGW Origin & Destination markets served nonstop by American or British Airways

(2) To the extent not included in (1), U.S.-Europe Origin & Destination markets with at least 5,000 annual bookings in which American (including TWA) and British Airways had an aggregate market share of at least 40%, and either American and/or TWA, on the one hand, or British Airways, on the other hand, had a share of 2% of more

(3) To the extent not included in (1) or (2) above, the top 100 Origin & Destination markets between the U.S. and Europe

(4) To the extent not included in (1), (2), or (3) above, American's and British Airways' respective top 100 Origin & Destination markets between the U.S. and Europe

For Origin & Destination markets specified in (1) through (4) above, provide the following:

Data should be for calendar year 2000

Directional itineraries consisting of more than three segments should be omitted

Records should be grouped by directional airport origin, directional airport destination, the continent of origin for the entire itinerary (Europe, U.S.), a connecting v. nonstop variable, directional itinerary carrier, and transatlantic operating carrier. For each grouping, provide O&D segment and great circle distance mileage, passengers, RPMs, and revenue. Records in each grouping should be broken into $250 fare bands.

This information is being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(15) Traffic and revenue forecasts (dated, created, or revised since May 31, 1999, completed either by American and/or British Airways staff or agents acting on their behalf) that quantify the effects on markets by the proposed alliance, including the extent to which the traffic and revenue forecasts for the partners will be the result of stimulation as well as the amount that will be diverted from other U.S. carriers (by carrier) should the proposed alliance be approved.

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(16) Provide complete information describing the extent to which airport facilities, including, but not limited to, gates, parking stands, counter space, and ground-handling, are or will be made available to any U.S. airline desiring to begin or increase service at U.K. airports (particularly, Heathrow and Gatwick airports).

The main airports in the London area (Heathrow, Gatwick, and Stansted) are operated by BAA plc, a private company. Many of BAA's activities, including its investments in airport facilities, are subject to the scrutiny of a regulator (the U.K. Civil Aviation Authority). The main Scottish airports (Edinburgh and Glasgow) are also controlled by BAA. Away from BAA's main London airports, the main regional airports in England (Manchester, Birmingham and Newcastle) are controlled by their local authorities. Manchester is regulated by the CAA in a similar way to BAA. In the case of regulated airports, the owners tend to be even-handed in their approach to the provision of facilities. The availability of capacity and who has access to it is generally for the airports to decide.

The situation in the U.K. may be contrasted with that in the U.S., in that in the U.K. a "slot" is a combination of all the capacity elements required to operate a service, including runway and ground facilities. Therefore, if a slot transfer between airlines is effected, in agreement with the slot coordinator of an airport's scheduling committee (see below), then all the necessary capacity entitlements to operate at that time are effectively obtained. Thus, for example, a departure "slot" carries with it the necessary check-in capacity, a share of departure lounge space, a suitably-sized gate lounge and aircraft stand, and a runway departure time.

The allocation of capacity ("slots") at busy airports in the U.K. (as at many other airports worldwide) is overseen by independently functioning scheduling committees. These committees' objectives include ensuring that airlines' schedules can operate without excessive delays or congestion, and that capacity is retained by, transferred between, or (in the case of new capacity) allocated to airlines according to a set of rules. At airports within the EU, these slot rules are governed by an EU directive as well as the IATA scheduling committee procedures.

Over the last three years (1997/8 to 2000/1), BAA has invested some £1.2 billion (approximately $1.7 billion) in its three airports in the southeast of England, the majority of that at Heathrow and Gatwick. As a result, airport facilities available to, and services provided by, U.S. airlines and others have continued to increase. This investment has allowed U.S. airlines to grow faster than other airlines at those airports. Between 1997/8 and 2000/1, Heathrow and Gatwick accommodated far greater passenger growth for U.S. airlines than for all airlines combined -- twice as much at Heathrow (23% vs. 11%) and one and one-half times as much at Gatwick (30% vs. 18%). See BAA Traffic Statistics 1997/8 and 2000/1 and CAA passenger data.

BAA's latest 10-year capital investment program (October 2000) for Heathrow, Gatwick, and Stansted forecasts some £1.7 billion ($2.5 billion) of capital investment for the three years from April 2000, with the majority at Heathrow and Gatwick. This investment is providing, and will provide, additional ground facilities at both airports.

For example, investment is taking place for opening new facilities this year (2001), next year (2002), or the year after (2003) including:

At Heathrow:

o Extending and provide new pier service (gates) at pier 5 in Terminal 3

o Linking T3 by underground tunnel to parking stands on the western apron

o Developing the T3 departures area with a wide range of passenger facilities to accommodate demand up to the opening of T5

o Improving the T3 arrivals hall

o Developing T1 for handling additional long haul operations

o Adding new pier-served stands at T4

o Renovating and upgrading the T4 baggage system

At Gatwick:

o The South terminal departure lounge extension was completed this year

o The South terminal check-in area has recently been expanded for U.S. airlines

o The North terminal departure lounge is being extended o New pier served stands are under construction for the North terminal (pier 6)

o A rolling program is providing additional parking stands on the western apron.

At both airports, the provision of specialized (e.g., premium passenger) lounges is an ongoing activity, built in response to specific requests. BAA is normally keen to meet new requests for such facilities, as the rental returns are attractive. The build and fit out program can often be short as the recent example of new lounge facilities in Terminal 4 for KLM, which are scheduled to open later this year, has demonstrated.

In the case of London Stansted, a significant expansion of ground facilities is under construction which will provide opportunities for new services. Continental has begun daily service from Stansted to Newark. The airport has plans to accommodate 25 million passengers per annum, compared with almost 13 million now, and plans to provide for at least 20% of that to be long-haul traffic.

U.S. airlines currently operate scheduled service to a number of U.K. airports outside London including Manchester, Birmingham, and Glasgow. American and British Airways would not expect U.S. airlines to encounter constraints due to ground facilities at these airports. For example, Manchester airport has recently opened its second runway and has ground capacity, both current and planned, to meet additional long-haul demand. The airport authority actively seeks to promote its capacity and other attractions for new services, especially on long-haul routes such as those to and from the U.S.

Ground handling services at U.K. airports are governed by a European Directive on Ground Handling, intended to ensure competition. A carrier may choose to handle itself or to purchase handling service from a third party. All terminals at Heathrow and Gatwick offer a choice of at least two handling agents, and in most cases more. There are no restrictions on handlers offering passenger service within the terminals; however, for safety reasons, the provision of third-party ramp handling service is subject to licensing control by the Airport Authority. At Heathrow, certain specific handling services, including ramp movements, baggage, and the transport of freight and mail, are also subject to a ground handling approvals process developed jointly by the Authority and the airline community.

The current ramp handling market is both competitive and dynamic, and a total of 69 applications for new or altered handling arrangements have been made under the approvals process since the licensing arrangements were introduced in 1999. Of these, 68 have been approved.

A regulatory review of BAA by the U.K. CAA is currently underway that will set the framework for future investment for the years 2003-2008, and indicate the program for the longer term. Investment in Heathrow (Terminal 5) is expected to be the center piece of these long term plans, subject to Government approval expected this year. These would progressively increase ground handling facilities to accommodate some 30 million additional passengers per annum ("mppa"). For Gatwick, BAA already has the general approvals it needs to develop the facilities to handle some 40 mppa by 2008, compared with about 32 mppa now.

In the context of the regulatory review, the IATA London Airport's Consultative Committee, and its Heathrow and Gatwick subgroups, are currently in consultation with BAA about its investment program and priorities. For example, further stand development on Heathrow's eastern apron is being considered, taking into account new aircraft types such as the A380, as are plans to link Heathrow's terminals (if T5 is approved) to enable automated passenger and baggage transfer between the existing and new terminals. The timing of adding new pier-served stands and gates at

Gatwick's North terminal is under active review. U.S. airlines are regular contributors to these discussions.

(17) An assessment of availability of commercially usable slots at Heathrow Airport for U.S. airlines, particularly new entrants.

a. Analysis of slot and gate allocations by each airline serving Heathrow Airport. The requested information is attached in Exhibit JA-19. As noted above, gates are not permanently allocated to individual airlines at Heathrow.

b. Any other evidence relevant to meaningful access to Heathrow Airport for U.S. airlines.

There will be sufficient slots available at Heathrow to accommodate the increase in transatlantic service that is expected following the initiation of open skies. As airline alliances continue to grow, air carriers will have even greater incentive and ability to swap or lease needed slots at Heathrow from their alliance partners. Moreover, although Heathrow is a congested airport, air carriers may also manage their Heathrow slot portfolios by either (a) applying to Airport Coordination Limited ("ACL"), the U.K. aviation authority responsible for allocating slots, for new slots, or (b) applying to ACL for the retiming of existing slots. In particular, carriers that wish to begin new services at Heathrow will apply for off-peak slots (which are readily available), and will exchange them with a carrier that has better timed slots (with or without compensation). All of these methods have resulted in extensive allocation and reallocation of slots at Heathrow over the last several years, permitting 10 new carriers to commence operations at Heathrow since the Summer 1997 season.[8]

(i) Carriers Will Continue To Obtain Slots At Heathrow By Exchanging Slots

The two primary methods by which air carriers acquire desired slots are swapping slots with other carriers on a one-to-one basis, and leasing slots from other carriers (practices known as "trading").[9] We refer to both practices as "exchanges." According to ACL, for the Winter 2000-Summer 2001 seasons, 35 carriers entered 99 agreements resulting in the exchange of 566 flights per week at Heathrow (i.e., 81 daily flights (representing 40 slot pairs) were the subject of these agreements). Several of the alliance competitors of American and British Airways,

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[8]The 10 new entrants are Eurosun Airlines, Transaero, Libyan Arab, Air Freight Express, Arkia, Base Airlines, Georgian Airways, Cronus Airlines, Avianca, and Qatar Airways. Of the 10 new entrants, eight are still operating services from Heathrow.

[9]The practice of exchanging slots at Heathrow has been occurring for years, and was recently affirmed by the High Court in the U.K. See R. v. Airport Coordination Limited (Respondent), ex parte the States of Guernsey Transport Board (Applicant) (1999) (QBD).

such as Air Canada, BMI, Lufthansa, and SAS, each entered at least seven such agreements last year, resulting in the exchange of 111 flights. Importantly, many of the Heathrow slots exchanged for this period involved services to or from the U.S., including to or from five of the six cities in which American's and British Airways' nonstop U.S.-U.K. services overlap.

It is likely that the continued growth of airline alliances will foster even more slot exchanges as alliance partners match up their slot assets with their competitive strategies. Moreover, an open skies agreement will permit air carriers to expand or begin transatlantic services between Heathrow and the U.S. Many air carriers already have expressed interest in such services -- such as BMI, Delta, Northwest, and United -- and are members of, or affiliated with, airline alliances rich with Heathrow slots that at present are being used for flights to other destinations. These carriers, among others, will have both the incentive and the ability to secure slots by exchanging them with their alliance partners. See Star Alliance Ponders Competitive Position at Heathrow, World Airline News, April

6, 2001 ("Now [Star] can reorganize the [Heathrow] slot pool for all the individual [Star] carriers").[10]

Indeed, the data from this year (Winter 2000-Summer 2001) confirms that carriers who are members of alliances are already actively exchanging Heathrow slots among themselves. For example, of the 99 agreements reached this year, 24 were directly between Star Alliance members (as reflected in Table 1 below), which resulted in the exchange of 85 flights per week.

Table 1

LHR Slot Swap/Trade Agreements Among Star Alliance Members (Winter 2000 – Summer 2001)

Star Alliance Members		Number of Agreements	Flights Per Week
United/Air Canada		3	9
United/BMI		2	14
BMI/Lufthansa		2	5
BMI/SAS		4	15
BMI/Air Canada/Canadian Airlines		3	8
Lufthansa/ANA		4	20
Lufthansa/Air Canada		1	1
SAS/Air Canada/Canadian Airlines		4	12
Air Canada/Air New Zealand		1	1
	Total:	24	85

Source: ACL

[10]The existence of airline alliances also lowers the transaction costs associated with slot exchanges because alliance members are better able to account for the full costs and benefits of rearranging their slot holdings.

The Star Alliance is particularly well positioned to become an even more vigorous competitor for transatlantic business. With the addition of BMI (the second largest Heathrow slot holder) in July 2000, the Star Alliance now has approximately 128,000 Heathrow slots per year, or about 27% of Heathrow's operations, and provides service to over 850 destinations worldwide. The positive effects of BMI have already been felt. According to Michael Bishop, BMI's CEO, after BMI joined the alliance, "interlining passenger traffic from other Star members increased 60 percent year-over-year for the last six months of 2000." See World Airline News, April 6, 2001. This traffic growth is largely due to the fact that BMI "has more than half the [Star Alliance's] slots" at Heathrow, thereby doubling the alliance's potential at the airport. As noted by one airline analyst, "[n]ow [Star] can reorganize the [Heathrow] slot pool for all the individual [Star] carriers." Id. Thus, there can be no doubt that the Star Alliance members (including United, BMI, and Lufthansa) will be able to offer desirable slots to their own members and others in exchange for slots at Heathrow that will permit expanded transatlantic service.

In addition to reshuffling the Heathrow slot pool held by its members, the Star Alliance is also investing heavily in new facilities that will permit expanded transatlantic service. Since the addition of BMI, the Star Alliance has announced plans to invest about 50 million pounds in upgrading its Heathrow operations "to support their attack" on British Airways and the oneworld alliance, and will use BMI "to spearhead the attack." See Financial Times, April 2, 2001. According to BMI's Mr. Bishop, "Heathrow is an important global hub for Star Alliance," and there are many things the alliance can do to improve service there, such as adjusting its members' schedules to create more convenient and efficient connections, and improving the facilities used by passengers. See Dow Jones International News, March 30, 2001. "We plan to work closely with the airport authorities to unlock the potential of Heathrow as a Star Alliance hub." See Financial Times, April 2, 2001.

Likewise, two of the other airlines most likely to begin or expand transatlantic service after open skies -- Delta, which is a member of the SkyTeam alliance (with Air France, Alitalia, Korean Air, Aeromexico, and CSA Czech Airlines) and Northwest (and any future members of the Northwest/KLM Wings Alliance) -- have or will have a relationship with an alliance that has members with substantial Heathrow slot holdings. For example, Air France holds nearly 14,000 slots per year at Heathrow, and Alitalia and KLM each hold nearly 10,000 slots per year, representing a combined total of 44 daily slot pairs. Thus, any member of these alliances should have meaningful access to slots at Heathrow, totally apart from those slots that may be available from ACL for new entrants.

Carriers that are currently unaffiliated with an alliance likewise will be able to obtain slots for trans-atlantic service through exchanges. In addition to the 24 exchange agreements they entered between themselves, Star members entered 27 agreements with non-Star members in the last year, and six of these were with independent carriers. Likewise, oneworld members entered 28 agreements with non-oneworld members over that time, including six agreements with independent carriers. Thus, more than 20% of the slot exchange agreements entered into by Star and oneworld with carriers outside their respective alliances were with independent carriers.

(ii) Some Slots Also Will Be Available For Allocation By ACL That Will Further Facilitate Slot Exchanges

Although Heathrow is a congested airport, ACL manages each year to increase the total number of slots allocated to airlines. Such capacity increases are the result of regular meetings among ACL, the British Aviation

Authority ("BAA") (which operates Heathrow), the National Air Traffic Services ("NATS") (the air traffic controller), and air carriers regarding methods by which capacity at Heathrow can be effectively and safely increased. As shown in Table 2 below, since 1995, a total of 1,101 new slots per week have been added at Heathrow during the summer seasons, with an average increase from season to season of 157 slots per week. This translates into a total of 79 new roundtrip daily flights, with an average increase from season to season of 11 roundtrip daily flights (a roundtrip daily flight requires 14 slots per week, i.e., one slot for each departure and arrival every day of the week).

Table 2
Heathrow Slots Allocated Per Week
(Summer Seasons 1994-2001)

	S94	S95	S96	S97	S98	S99	S00	S01	Total	Average Increase Season-to-Season
Slots Per Week	8,195	8,358	8,458	8,649	8,807	9,049	9,198	9,296		
New Slots Per Week		163	100	191	158	242	149	98	1,101	157.3
Equivalent New Daily Round Trips		11.6	7.1	13.6	11.3	17.3	10.6	7.0	78.6	11.2

These capacity increases do not fully account for the actual number of "new" slots that become available each season to allocate to non-incumbent slot holders. The pool from which ACL allocates new slots is in fact continually replenished and expanded, not only due to increases in capacity, but also due to carriers who relinquish or forfeit slots that then become available for other carriers to use (if a carrier does not use a slot at least 80% of the time in a given period, or if it fails to abide by the times assigned to the slot and certain other restrictions, it may forfeit the slot). As shown in Table 3 below, there has been an average of 590 new slots per week at Heathrow available for allocation to non-incumbent carriers during the summer seasons from 1998 to 2000. This amounts to an average of 42 roundtrip dailies available to non-incumbents each season.

Table 3
Heathrow Slots Available for Allocation
(Summer Seasons 1998-2000)

	S98	S99	S00	Average
Pool Slots Available Per Week	697	593	481	590
Round Trip Dailies Available	49.8	42.4	34.5	42.2

Moreover, ACL is required to give preferential treatment to "new entrants" as that term is defined by its rules, meaning that it must set aside half of the slots in a given season for this class of carriers. ACL defines "new entrants" as those carriers that, upon requesting and receiving a slot allocation, do not hold more than four slots on that day at Heathrow. If new entrants do not take all of the slots set aside for them, the remaining slots are allocated to incumbents. Thus, a large percentage of new slots allocated each year are granted to "new entrants." For example, during the Winter 1999-Summer 2000 year, 30.5% of the new slots granted went to new entrants, and during the Winter 2000-Summer 2001 year, 38.4% of the new slots granted went to new entrants.

Another way for air carriers to obtain slots at Heathrow for transatlantic service is to seek the re-timing of historic slots. As shown in Table 4 below, ACL has granted tens of thousands of re-timings to holders of existing slots at Heathrow, approving a timing change in connection with the vast majority of all requests.

TABLE 4

Year	Number of Re-timings Requested	Number Granted (Unmodified)	Number Granted (Modified)	Total Re-timings Granted	Percentage Granted (Mod. & Unmod.)
W99 - S00	137,727	97,072	16,849	113,921	82.7
W00 - S01	136,971	85,118	25,423	110,541	80.7

Although there are a limited number of Heathrow slots available for peak-hour transatlantic flights, carriers that wish to begin new transatlantic services may apply for off-peak slots (which are readily available), and exchange them with a carrier that has better-timed slots, as described in more detail above.

For all of the above reasons, air carriers will continue to be able to obtain new slots, obtain new (favorable) slot times, and efficiently manage their slot portfolios at Heathrow for transatlantic service after open skies.

(18) <u>Provide all documents dated, created, or revised since May 31, 1999 that discuss airline access to Heathrow and Gatwick airports, including the ease or difficulty for any airline of improving or increasing service at these airports, procedures or strategies for obtaining slots</u>

or facilities at that airport, and other airlines' attempts to obtain slots or facilities.

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(19) Provide a detailed list of all parties' current slot holdings at Heathrow and Gatwick airports and copies of any plans to reallocate these slots between the parties.

This information is provided in Exhibit JA-20. The parties currently have not reached an agreement on any plan to reallocate these slots between them.

(20) Provide copies of internal or third-party documents/studies dated, created, or revised since May 31, 1999, that discuss, consider, or analyze the impact of the display of codeshare arrangements in computer reservations systems (including the multiple displays of flights under different codes) on travel agency bookings, airline sales, and airline market share.

Such documents are being submitted separately by American and British Airways, accompanied by a joint motion for confidential treatment under 14 CFR 302.12.

(21) A discussion as to any labor issues that may result from the transaction, and whether, how, and to what extent employees of the partners will be integrated. In particular, state whether the arrangement or this type of arrangement was the subject of recent collective bargaining between American and any of its unions and the nature of such discussions. Discuss whether American's unionized employees adversely affected by the arrangement would be compensated or protected by a collective bargaining agreement and whether adversely affected non-unionized employees would be compensated pursuant to separate arrangements.

The transaction raises no significant labor issues. American and British Airways will remain independent, with neither having the ability to control the other. No significant impact on unionized employees is anticipated under the agreement. American and British Airways believe that the long-term impact of the transaction will be positive for all existing employees and for new job creation.

(22) Describe any effect of granting the application on American's Civil Reserve Air Fleet (CRAF) commitments.

The American/British Airways alliance will have no impact on American's Civil Reserve Air Fleet (CRAF) commitments.

CONCLUSION

For the foregoing reasons, American and British Airways urge the Department to approve, on an expedited basis, their alliance agreement under 49 USC 41309, and to grant antitrust immunity to that agreement under 49 USC 41308.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by Fed Ex on all persons named on the attached service list.

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